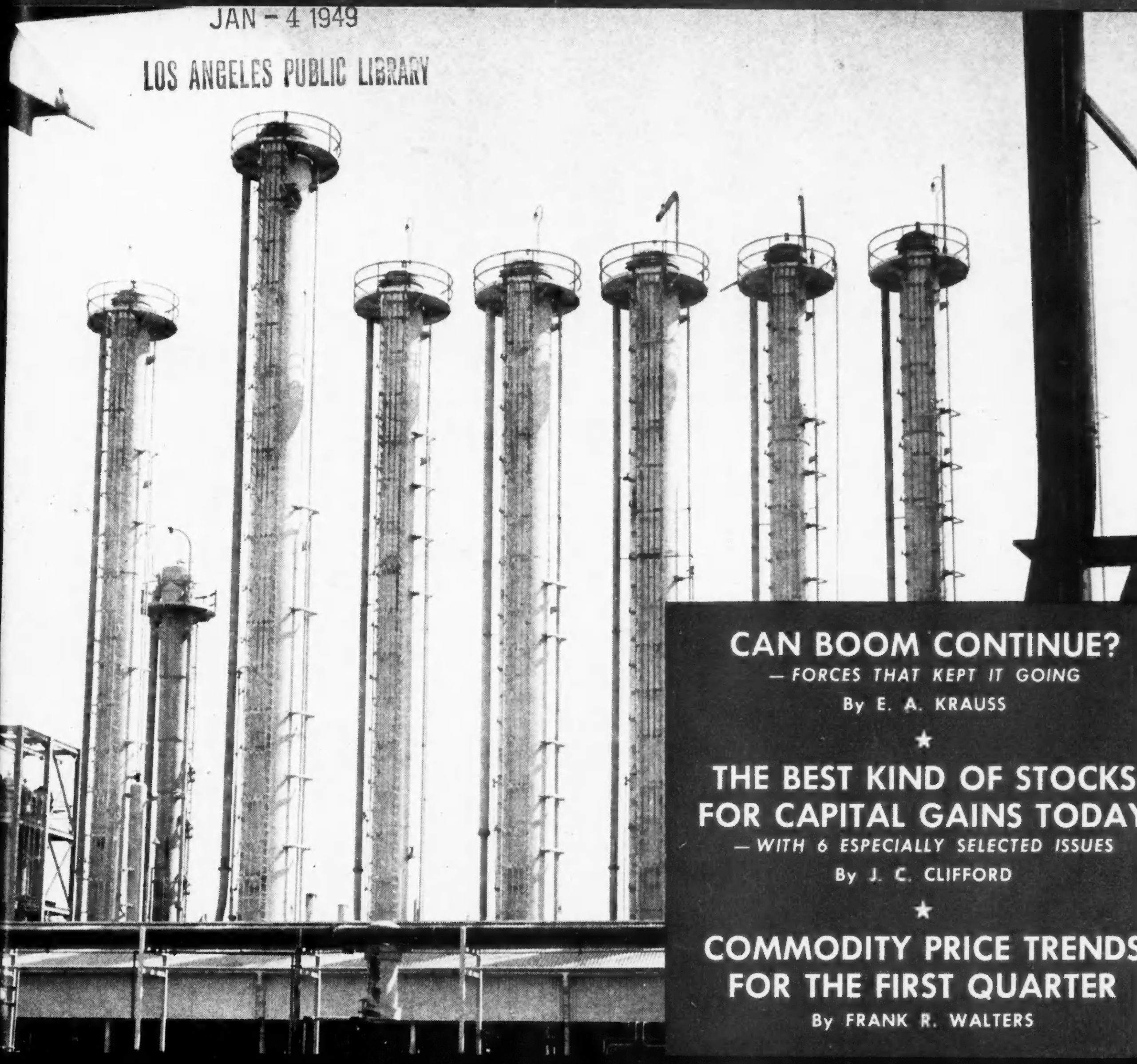
★ INDIVIDUAL SECURITY TRENDS NOW CRYSTALLIZING ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

JANUARY 1, 1949

75 CENTS



CAN BOOM CONTINUE?

— FORCES THAT KEPT IT GOING

By E. A. KRAUSS

★

THE BEST KIND OF STOCKS FOR CAPITAL GAINS TODAY

— WITH 6 ESPECIALLY SELECTED ISSUES

By J. C. CLIFFORD

★

COMMODITY PRICE TRENDS FOR THE FIRST QUARTER

By FRANK R. WALTERS

THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Vol. 83, No. 7 — January 1, 1949

The Ticker Publishing Company is affiliated by common ownership with the Investment Management Service and with no other organization. It publishes The Magazine of Wall Street and Business Analyst, issued bi-weekly, and The Investment and Business Forecast, issued weekly. Neither the Ticker Publishing Company nor any affiliated service or publication has anything for sale but information and advice. No securities or funds are handled under any circumstances for any client or subscriber.

CONTENTS

Chart Credit (page 340, 341, 343, 346, 347)
F. W. Stephens Co., 15 William St., N. Y. C.

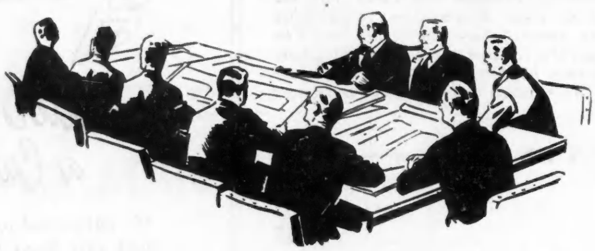
SUBSCRIPTION PRICE—$15.00 a year in advance in the United States and its possessions and Pan-America. Canadian and Foreign Postage, $1.00 additional per year. Please send International Money Order or United States Currency.

TO CHANGE ADDRESS—Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to your new address.

EUROPEAN REPRESENTATIVES — International News Co., Ltd., Breams Bldg London, B. C. 4 England.

Cable Address—Tickerpub

With the Editors . . . .



THE turn of a year always invites reflection, and reflection is good for perspective, today more than ever needed for proper appraisal of what lies ahead. It means looking back as well as looking forward, for without proper understanding of what has happened, we cannot correctly evaluate the significance of events to come.

In looking back, we find that much of the mercurial optimism that characterized the earlier phases of the postwar era has given way to a more cautious and sober view of the trend of affairs, both domestic and international. At this stage particularly, a new year means a new outlook, and perhaps a new order of things in many ways. It brings new challenges and new responsibilities, but also new opportunities. The potentials for a better and fuller future continue to exist, but we must know how to recognize them and make proper use of them.

Admittedly the shape of world affairs does little to promote good cheer but though the world is deeply troubled, the past year has not been without progress. There has been progress in making the world at large fully realize the gravity of the threat to peace and stability posed by the evil forces of tyranny and totalitarianism which have unloosened the struggle between East and West. And there has been progress in our efforts to counter this threat, to marshall the forces of freedom and peace — however much remains to be done. Yes, we have made progress which, though sometimes obscured by the current of daily events, advances us well on the road towards building a better and safer world.

It goes without saying that the state of world affairs and the moves that are being undertaken to bring this battered globe back to political and economic sanity and equilibrium have profound meaning to every investor. He can hardly afford to await with complacency the course of developments; rather he must be on the alert in recognizing their significance in advance.

To safeguard his substance and to take advantage of the undeniable opportunities that will present themselves along the ultimate road to world reconstruction, he must keep informed and be prepared for quick decisions. Without fundamental understanding of the problems characteristic of the present era, he cannot do that.

Back at home, too, we face a situation full of challenge and uncertainties, a situation charged at once with factors of great strength that have supported the biggest boom in our history, and on the other hand with deflationary signs that cannot be dismissed as temporary or insignificant.

1949 will bring the answer to the question whether the boom is levelling off and how much, whether a turning point has been reached in postwar inflation. And 1949 will bring the answer to the question: How much prosperity in the future, how much flux in the business and industrial situation as the country settles back to a more normal base of economic activity?

In many respects, the world situation and our domestic problems are closely interrelated. Together they pose new and vital problems to every investor and to cope with them realistically and successfully may not always be easy.

As in the past, so in the New Year, THE MAGAZINE OF WALL STREET stands ready to furnish its readers the type of practical investment and business guidance, which today is indispensable for satisfactory results. Not only will it provide you with the best investment service you can possibly obtain but it will bring you, regularly, numerous supplementary services essential in gauging the trend of markets and securities values.

Above all, you will find of utmost value and convenience the continuity of our investment service so successfully instituted last year through Mr. A. T. Miller's market outlook. It gives you sound and reliable advice as to the proper timing of your investment moves, and helps you to make the most of the security selections constantly offered in the MAGAZINE after painstaking analysis.

You will find our selections of particular value today, where emotionalism and exaggerated fears have driven many sound stocks down to exceptional bargain levels, but where discrimination and selectivity is the foremost necessity in choosing investments that will do well during the coming year of changes and cross currents.

In short, we offer you sound selection with proper timing, and unbiased judgment based on 41 years of experience in the investment field during which we have served our readers successfully and profitably in boom and depression, in war and in peace. It is this high standard of service that should make THE MAGAZINE OF WALL STREET invaluable to you during the year ahead, a year undoubtedly full of vital developments with profound impacts on markets and investments.

Effectively supplementing our investment service, our BUSINESS ANALYST will keep you abreast of the basic business forces that may shape tomorrow's markets. In every issue he keeps you posted on what goes on in the world of business, uncovers and analyzes trends in the making long before they find reflection in the conventional indicators of the nation's economic life. With widely divergent trends looming ahead on the industrial horizon, the businessman no less than the investor will find these realistic interpretations particularly valuable.

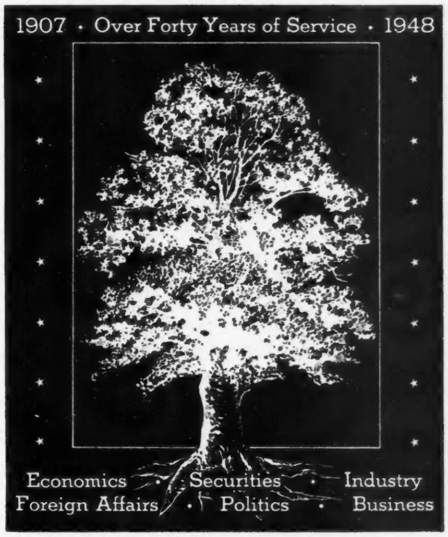
In addition, our ECONOMIC SERVICES study and weigh broad economic trends, their significance and potential implications in terms of business and market potentials. At frequent intervals, they offer concise summaries of the economic outlook, along with interpretative articles bearing on specific subjects of timely interest.

Finally our WASHINGTON LETTER keeps you informed of developments in the nation's capital in the field of political, economic and foreign affairs. It goes behind the scenes, unearthing trends of thoughts that are likely to develop into action in the future. It keeps you ahead of events!

All in all, THE MAGAZINE OF WALL STREET stands ready, in the New Year as in the past, to serve you more fully and better than ever in one of history's most difficult periods, a period in which being well informed is not only a duty but a paramount necessity.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Editor-Publisher* — E. A. Krauss, *Managing Editor* — Arthur G. Gaines, *Associate Editor*



The Trend of Events

PROFITS vs. DIVIDENDS . . . Not too surprisingly, Senator Flanders, chairman of the sub-committee of the Joint Congressional Committee on the Economic Report, after two weeks of hearings on profits, prices and wages, has come to the conclusion that the corporations have made a better case for their profit policies than was expected; but he expressed his "deep concern" over how far corporate industry can go in its present program of plowing back profits to provide for expansion of production facilities, formerly financed by equity capital.

As it is, Senator Flanders is not the only one concerned about this trend. Numerous stockholders, disappointed with the skimpy dividends they have received in times of peak profits, will wholeheartedly join not only in his concern but in thorough disapproval. Doubtless in some cases, the plowing back of profits to finance expansion has gone entirely too far, to the detriment of present stockholders. It explains at least partly why stock prices are so low in relation to earnings.

Industry has frequently stated that it is forced to finance internally because of poor stock market conditions precluding the placement of new securities; but perhaps stock market conditions — meaning stock prices and the willingness of investors to buy stocks — might be better if dividend policies were more generous. As it is, high earnings can hardly remain a determinant of stock prices so long as only a small part of these earnings is going to stockholders. It's what stockholders get, that really counts. Current stock prices suggest that they are selling, and have been selling for some time, in relation to dividends paid rather than reported earnings. From an investor's standpoint, this is the only realistic yardstick so long as dividend policies ignore the equity holders' rights to a bigger share of profits, as they frequently do. Those bemoaning the poor state of the investment market should not lose sight of this.

THE ROCKY ROAD TO RECOVERY . . . Great Britain's four-year plan for economic rehabilitation, recently published as a White Paper, proposes unabated austerity but envisages by 1953 a favorable balance of trade and modest increases in food and manufactured goods for the British people — if they all work hard. This blueprint of frugal living, continued sacrifices and stepped-up production through greater effort was evolved to assure that Britain lives up both to the letter and the spirit of the Marshall Plan and balances its books by the time ECA aid is to cease.

Other Marshall Plan countries have found the British formula far too rigid and as a result, meetings are now going on in Paris to draw up an integrated European recovery plan. It's for this reason that the British plan has been described as entirely provisional, since it will almost certainly have to be revised to meet the requirements of co-operating European countries and a variety of now unforeseen circumstances.

All of which highlights the rocky road which Europe and ECA have to travel in their joint effort towards recovery and rehabilitation of the war-torn continent. In the overall problem, France stands out as the weakest spot, giving rise to a good deal of "second thinking" in Washington about the Marshall Plan and its chances of ultimate success, and about the best methods to make it work. Second biggest problem is that of European economic integration, so far woefully behind expectations.

Main controversy seems to revolve about British-French problems and of the future trade balance be-

tween the two countries. Before the war, France had a large favorable trade balance with Britain, and now she has a substantial adverse balance which she seems anxious to maintain in the near future, though the ultimate goal is restoration of the prewar situation. Most other western European countries are in somewhat similar positions, thus Britain is up against an almost united European front in the form of demands that during the next four years, her economic policy should aim at the admission of an increasing import surplus from the Continent, consisting mostly of luxury goods.

The British four-year plan takes an entirely different line, aiming at a balanced trade with the Continent on the theory that Britain can no longer afford her prewar role as an importer of luxury goods in view of the deterioration that has occurred in her world-wide balance of payments position. But against this, the European countries hold that they can hardly achieve equilibrium unless and until they recover their British markets.

In short, the problem poses a dilemma of the first order, particularly in view of ECA insistence on greater economic integration among European countries. Either side feels that any yielding would seriously jeopardize its own interests while at the same time, standing pat on their own viewpoints would certainly jeopardize European integration and Marshall Plan success. As one observer puts it, the choice seems to be between equilibrium in Britain, or in France and other similarly situated countries. Eventually a compromise will have to be found. It probably will involve an intensified British export drive in the face of growing competition in the world markets, and greater concentration of Western European production on export goods which Britain is now obtaining from hard currency countries, requiring important basic changes in the productive systems of these countries. The hope is that some such compromise will be achieved so that the present conflict will not unduly delay European integration on which success of the Marshall Plan depends.

THE FRENCH SITUATION . . . is particularly unpromising, as evidenced by the latest budget crisis that at this writing is as far from solution as ever. Plainly, the French people appear unwilling to bring the sacrifices needed for recovery, and the Queuille Cabinet is too weak to force them. Its present troubles lie in the difficulties of formulating a budget for next year that will be politically acceptable at home and yet satisfy ECA requirements for sorely needed fiscal reforms, especially a balancing of the budget.

Center of disagreement is the French attempt to include in their budget as available receipts the sum to be built up in the "counterpart fund" which accumulates from Marshall Plan goods sold in France. If such a procedure were permitted, the budget would reach at least near balance, provided that current inflationary trends abate.

However, ECA is trying to put some realism into the French budget, thus remains adamant in its refusal to release counterpart funds for such uses, holding correctly that such procedure hardly constitutes the sort of fiscal reform which France needs. The difference of opinion has given rise to many unfounded rumors within France and accelerated the flight from the franc.

There are other conflicts, basically all indicative of the weakness and delicate nature of the French political situation. Only recently the Queuille Cabinet proposed a forced loan as one way out of the budget dilemma, but subsequently wavered and suggested a voluntary loan. ECA feels that this is merely postponing trouble. ECA also is dissatisfied with the proposed tax increases which it thinks are insufficient, and ECA is not impressed with the French proposals toward overhauling of the tax machinery which at present is full of holes with the result that 50% of French national income currently yields less than 6% of the country's taxes.

And so it stands. With French leaders unwilling to face an internal showdown, the outlook for a realistic French budget is extremely poor, and with it the prospect that France will soon be able to play her assigned role in the European recovery scheme, if she ever will. To most observers, a political showdown, sooner or later, is inevitable. It is a situation that may bulk large when Congress gets down to the task of appropriating funds for the second Marshall Plan year.

RECORD OF FUTILITY . . . The late unlamented U. N. Assembly meeting in Paris has adjourned without reaching even tentative agreement, let alone solving, any single major issue threatening world peace today. The labors of the world body were hailed by some of its leaders as milestones on the road to world peace. To the man in the street looking towards world peace, the endless bickering and the total lack of concrete results was worse than disappointing. It must have robbed him of every faith he had in the world organization as presently constituted, and must have left him with the question whether there is any point in prolonging its life. Nothing the assembly did pointed to progress towards its professed and lofty ideals . . . to maintain peace and security . . . to achieve international cooperation . . . and to develop friendly relations among nations.

Nothing was done that brought a peace treaty nearer with Germany or Austria; nothing to solve the situations in Greece and Korea; nothing to bring about a lifting of the Soviet blockade of Berlin, the most urgent problem that was perhaps most miserably fumbled. No progress was made towards disarmament and control of atomic energy. In short, no progress all along the front of vital issues.

In view of the adverse circumstances under which the United Nations were launched, this record of futility was probably unavoidable and only incurable optimists still hope that the world organization may in the future be productive of really worthwhile contributions to world security and world stability. The record makes it clear that we cannot rely mainly on the United Nations for our security. Real hope of preserving peace and security must continue to lie in our own strength and our close cooperation with other free and peace loving nations. It is the only practical approach that can lead to ultimate solution of the many serious problems, in the handling of which the U. N. Assembly has failed so miserably.

As I See It!

BY ROBERT GUISE

LET'S PULL TOGETHER

"No aggressors will dare march against the free nations if they regain their strength and remain united." Thus spoke ECA administrator Hoffman in a recent speech on European recovery. No truer words were ever said, for without unity, our efforts towards a more stable and peaceful world can hardly succeed.

Yet unity is often lacking among the western nations who receive Marshall Plan aid. While unity of purpose to some extent may exist, it is not supported as it should be by unity of action. Still it must be apparent to everyone that if the necessary cooperation for economic reconstruction under ECA is not achieved and converted into equal cooperation in every sphere, the Marshall program is bound to fail in its primary purpose.

Prior to its conception, in Congress and elsewhere, here was much talk and hope of a European Federation, of wide customs unions among the western European nations, of a general drawing together and consolidation of western Europe both economically and politically. The widely held idea was (and incidentally still is) that only such an advanced degree of unity could insure that Europe would grow strong enough to stand on her own feet economically and militarily, and become independent of US dollars and US protection against invasion or communist encroachment.

These wider goals, however, were not made conditions of the ERP program. Its primary aims were limited to economic integration and monetary stabilization, yet even in these limited, though admittedly difficult spheres, progress has been woefully disappointing. We now see how difficult it is to attain even these limited targets, since each country has its own favored plan that appeals to its national interests—at the expense of the broader aims that logically should underlie European actions at this critical time.

Thus Britain is closely linked with the Commonwealth and the Empire, and appears resentful of our demands that she correlate her trade with continental countries whose interests diverge from hers. Her attempt to assume leadership in the European council on the Marshall Plan, where her experts tend to dominate and where her austerity program arouses the envy of other countries, irks particularly the French, conscious of their own slow economic progress.

"HOW MUCH SAP CAN A TREE SUPPLY?"

Carlisle in the New York Herald Tribune

Generally the temptation of all Marshall Plan countries to seek first their own salvation by maximum exports and minimum imports is creating incompatible aims. Some of these problems are discussed in greater detail elsewhere in this issue. As matters stand, opinions and tempers are clashing between England on the one hand, and between France, Belgium and others on the other hand; and as they do, the Marshall Plan is running into troubles, some new, some deep-seated. All of which hardly makes for smooth operation of the ECA for which we provide the funds; nor do such developments as the bad faith implied in the reported use of ERP funds by Britain, Belgium and Holland to buy metal scrap in Canada and sell it in US grey markets at huge profits.

One is tempted to think that while the idea of European cooperation has been gaining under the Russian threat, the only really cohesive force seems to have been provided by our gifts and loans. Certainly what Europe has done so far bulks far less large than what she has planned to do. No wonder such an astute observer as Paul Reynauld, former Minister of Finance and wartime Premier of France, sees fit to warn the French people that they "cannot afford to go to sleep behind the Marshall plan the way they did behind the Maginot Line." This is timely advice to all Marshall Plan nations as well as to our own country now ready to prepare for the second ERP year.

It seems that the will to self-help, one of the basic concepts of the Marshall Plan, is still not what it should be in most western countries. There is little inclination among them to adopt Britain's austerity program; rather they seek *(Please turn to page 364)*

Individual Security Trends Now Crystallizing

The net movement of the market over the last fortnight has been neglible, although firmness has been maintained. There is still time for some extension of the heretofore small year-end rally. In our view it remains a broad trading-range market. There is no change in the conservative, middle-road investment policy we have advocated for some time.

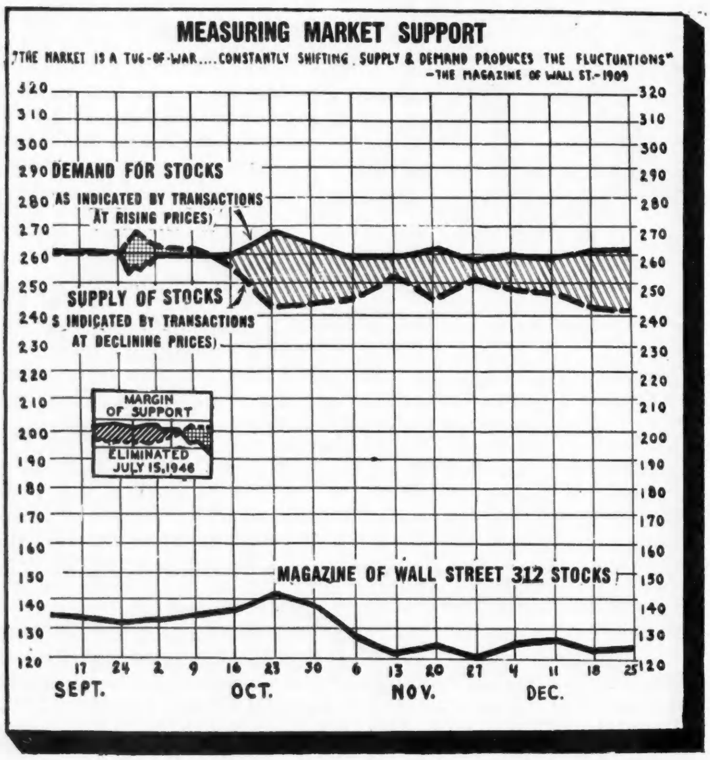
By A. T. MILLER

There has been virtually no net change in the position of the stock market during the last fortnight, with the averages "making a line" on the charts. Even in the volume of transactions, generally low since mid-November, there has been considerably less than the usual day-to-day variations in the recent trading. Of course, a "line" performance reflects a do-nothing mood by the vast majority of inventors and traders, and a very close bid-and-offer balance on such buying and selling as is being done.

This "stand-off" is reflected by our Market Support Indicators. As of the latest available day, December 24, the Demand and Supply lines are 19 points apart compared with 18 points a fortnight ago, with Demand remaining in dominating position.

The December performance of the market, up to the Christmas holiday, bears a striking resemblance to that of a year ago. Last year the pre-Christmas low was made in the first week of December, and in the present case it was made on November 30. Last year the range in the Dow-Jones industrial average on the year-end rally up to December 24 was 175.74-180.84, or 5.10 points. This year it has been 171.20-177.49, or 6.29 points. A year ago the comparable range in the railroad average was 46.28-52.45, or 6.17 points. This year it has been 51.91-54.00, or only 2.09 points.

Normally the percentage fluctuation in the rail average is considerably greater than that for industrials. In the 1947 year-end performance rails were the feature, rising about 13%, compared with a disappointing 3% or so for the industrial average. In the final week of 1947 neither average added more than fractionally to the pre-Christmas rally, for there was widespread doubt—entirely unfounded, as was later proven—about 1948 economic trends. Mistaken or not, the market thereafter trended down from a December 31 rally high of 181.16 in the industrial average to a 1948 February-March double bottom a trifle above 165, compared with 1946 and 1947 trading-range lows a shade above 163.

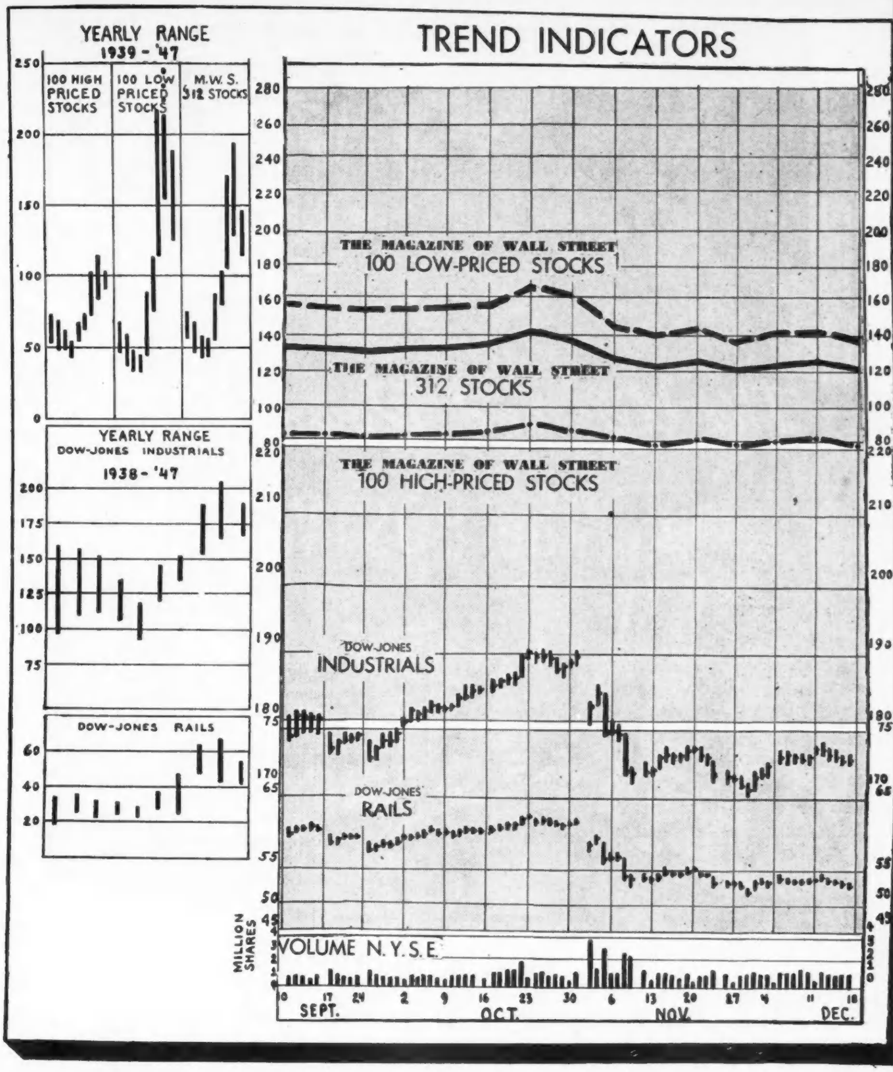


The Case For Further Rally

On the technical side, the basis for a rally is stronger than it was a year ago, because the total decline from the summer high to the November 30 low was nearly twice as great as the comparable 1947 reaction. Moreover, in the immediate technical background is the sharp post-election sell-off; itself amounting to nearly 19 points in the industrial average, which had no counterpart in the quiet downswing of 9.55 points between October 20 and December 6, last year. At the same time it is pertinent to note that the immediately prevailing speculative-investment sentiment ranges pretty much from extreme caution to bearishness. Hopes are not high for an extension of the thus far unimpressive December rally. Putting emphasis both on uncertainties centering in the President's nearby proposals to Congress, incident to his reshuffle of the New Deal, and on increasing evidence of soft spots in business, most people seem to expect, or

fear, a downtrend in stock prices during most of January.

We would not be surprised if this view proves wrong, despite its seeming logic. Much more often than not, situations like that—a sound technical position and a psychology of great caution—have confounded the skeptics by facilitating, rather than preventing, a rally. The tax selling is about over at this writing. Total December investment income, from dividend payments and bond interest, has exceeded all former levels, creating some re-investment demand which is yet to be reflected in the stock market. The average industrial stock is on the most generous yield basis in a number of years, for while the market has swung up and down in its two-year trading range dividends have trended steadily up. There is much more confidence in 1949 dividends than in 1949 business or earnings — and rightly so, for 1948 distributions to common shareholders are the most conservative on record, relative to earnings. This is a supporting factor both currently and for as far ahead as can now be foreseen.



There is little in the immediate action of the market itself which can buttress an opinion, either way, on the direction of the next move of 5 points, or more, in the industrial average. For the reasons heretofore cited, there is a fair chance that it will be upward; and the slight evidence of the last fortnight at least does not argue against it. The market ended the short pre-Christmas trading week with some show of firmness, taking the industrial and rail averages to within small fractions of their December 11 and December 13 rally highs, respectively.

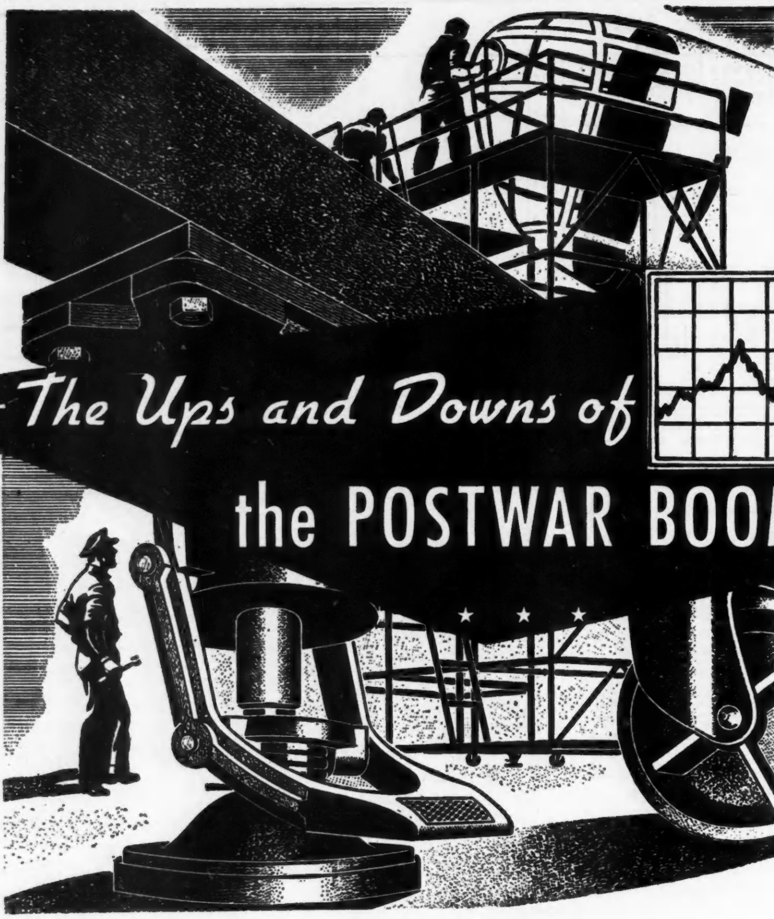
It seems highly improbable that the rails can play as much a part now as they did in last year's December rise, for the news environment affecting them is definitely less satisfactory than it was in late 1947 when they had just had a succession of rate increases from the Interstate Commerce Commission. However, it is encouraging that this average reacted only fractionally and briefly to issuance of the report of the President's emergency Fact-Finding Commission recommending a wage increase and a shortened work week which are calculated to add rather heavily to permanment rail operating costs. The character of the market's response to this news suggests that the rails probably can contribute somewhat more to a short-term rally than they have heretofore done, especially since at least one more compensating boost in freight rates is expected, possibly soon.

Recent changes have been too small, of course, to find material reflection in our broad weekly stock indexes, charted on this page. The relationship of supply to demand in the market, charted on the preceding page, remains generally favorable and has shifted little during this past fortnight.

Political Factors Will Recede

At this close distance it is pointless to speculate on what proposals the President may make in his January 5th State-of-the-Union message to Congress or in the subsequent message on the budget. However, it is improbable, in our view, that they will surprise the market, or give investors as much "clarification" as they would like. They are now being framed in an economic environment which clearly is no longer inflationary. That fact should, and prabably will, moderate Mr. Truman's general approach. Moreover, the legislation on the more important or controversial matters will hardly shape up before spring or early summer. Thus, the immediate "political uncertainty" will diminish, or end, as a market factor with the January 5th message. (*Please turn to page* 364)

—The Ups and Downs of the POSTWAR BOOM



By E. A. KRAUSS

Contrary to some popular concept of the postwar boom as a continuous uptrend of economic activity, like most other booms it has had its ups and downs, minor as they may appear. The downswings remained minor because their course was quickly arrested by counter-acting influences; nevertheless their potentials were clearly marked.

The fresh wave of doubt about continuance of the boom calls renewed attention to the fact that at various times since the war's end, there have been distinct signs of an oncoming recession only to have business spurt upward after no more than a brief dip. It isn't that these signs were misread or were not significant. They were real and potent enough and certainly just as important as when they appeared on previous occasions which might be termed fully comparable. But what happened each time was the emergence of corrective or offsetting factors which changed the picture and reversed the trend. It is beside the point that some of these factors were largely artificial in the sense that they were not a natural outgrowth of the economic situation but outside stimulants introduced for a variety of reasons. The fact remains that they acted as important economic props at a time when props were needed.

Thus three times since VJ-Day, recession has been knocking at the door, each time averted with the help of these special stimulants. First it was the unprecedented inventory boom together with the exceptional foreign demand for our goods and foodstuffs immediately after the end of hostilities. It quickly pulled industry out of the reconversion trough in which it found itself early in 1946, and carried activity to new peacetime highs. Later the huge industrial expansion program came into play. Together these primary factors carried the economy through 1946 and early 1947 at a constant record setting pace. Subsequently, when things began to look top-heavy again, wage increases, the Marshall Plan and re-armament came along to take up the slack.

Apart from these major props, there have been intermediate and — within the larger picture — secondary developments that helped support business activity whenever a lag threatened.

Early in 1947, for instance, expectations of a period of economic adjustment, accompanied by a mild recession, were widespread. But rather unexpectedly, nothing of the sort happened and things picked up quickly after a moderate dip. After the great spurt in exports had been halted by acute dollar shortages abroad, mid-summer saw a strong and contra-seasonal revival of construction activity and retail trade, in summer and fall, was kept from sliding off by huge bonus payments to veterans. As a result, demands and order backlogs remained large, and employment and incomes at record highs. Inventory buying after a decided slowing during the forepart of 1947 assumed new vigor while the volume of business expenditures for new plant and equipment continued at an annual rate of some $16 billion, far in excess of normal experience.

False Alarm in 1947

In other words, business which early in 1947 was set for at least a moderate recession, took new heart and decided that the time was not yet. Prospects of early implementation of the Marshall Plan later infused additional strength in our basic economy so that there was no significant change in the tempo of industrial activity. Rather the tempo grew faster, stimulated in no small measure by the inflationary implications of new wage demands and the projected European Recovery Plan.

Since recession fears cropped up as early as the closing months of 1946, it is interesting to recall the en-

vironment at that time. Orthodox economists pointed to the existence of the traditional signs of an approaching downturn — high prices, increased wages, inflated cost of doing business and the attendant encroachment on prospective profits — though at the same time admitting the absence of credit strain and the prospects for excellent crops. But their conclusion was that these signposts could only point to an oncoming dislocation of business. The stock market break in 1946 was viewed as concrete confirmation — if indeed not as a reflection — of the view that things were bound to slide.

Inventory Fears

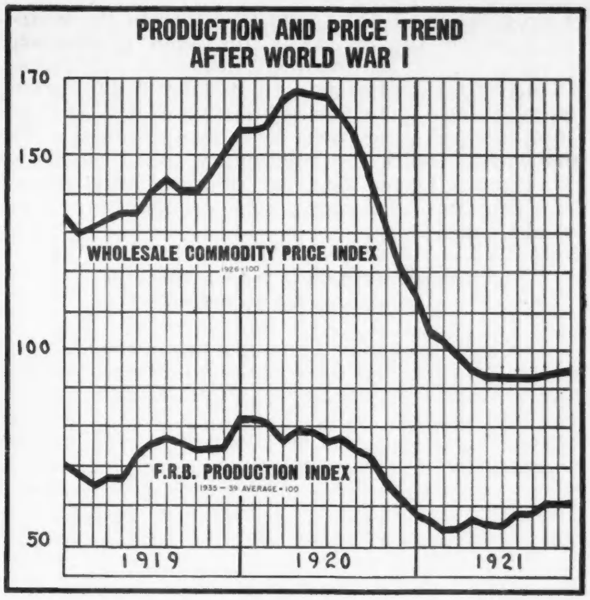
Observers pointed with considerable misgivings to the inventory picture, particularly in non-durable fields where accumulation had been heavy. Late in 1946, inventories were expanding at a $12 billion annual rate and totalled some $32 billion at the end of the year. They pointed with concern to the area of consumer goods and services, opining that a further expansion of output could hardly be counted upon and that a consequent levelling of consumer expenditures would readily become a second important factor initiating a downturn in 1947. The idea was that a decline in consumer goods prices would be necessary to clear the market as production approached capacity levels.

Admittedly, anything like a severe depression was discounted because of the accumulated deficit of consumer durable goods, and business investment was held sufficient to prevent any extreme. Actually, both these factors were underrated. As it was, predictions during the past two years of an end of the durable goods boom have been heard at regular intervals only to have events confound the prophets. In 1947, business expenditures alone were at an annual rate of $16 billion and in 1948 will have come close to $20 billion.

With the workings of all these sustaining factors, it was only natural that forecasts of declining inventory accumulation had to be revised. As general prosperity remained at a high level, sales and inventories continued to expand, the latter from $35.8 billion in January 1947 to $45.9 billion in January 1948. Last October, total business inventories stood as a new peak of $54.4 billion. True, the *rate* of expansion slowed but in 1948 rather than in 1947, as expected. In other words, inventory accumulation remained an important prop instead of a weakening factor in the boom. And capital goods activity, aided by mounting Government spending, increasingly became the backbone of the boom.

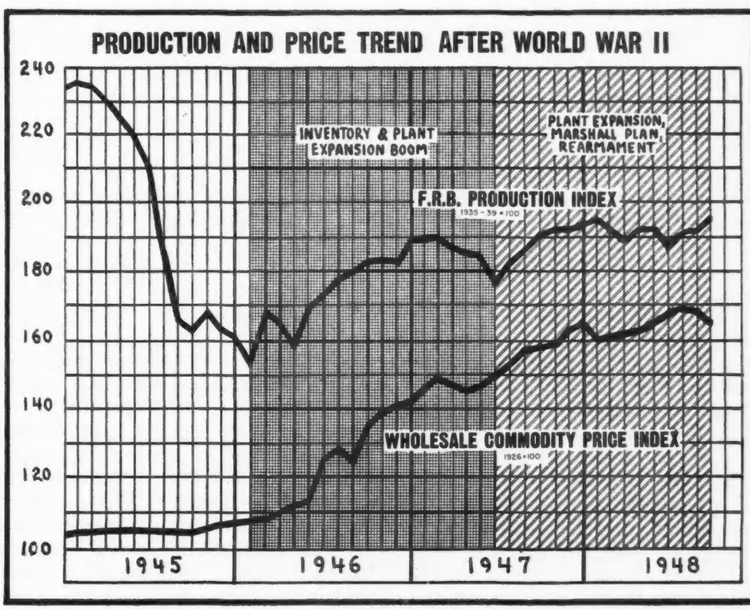
In the overall picture, we must of course not forget that perhaps the most distinctive phenomenon of the postwar period has been the cumulative magnitude and the explosive character of the price advance. It constituted a major source of maladjustment but hardly proved the expected decisive threat to the vigor of the replenishment boom, hence also the impossibility of drawing exact parallels with the experience of the Twenties. There are important differences.

After World War I, prices, having advanced much faster than production, fell of their own weight bringing to an early end the primary postwar boom phase. Reasons for the price collapse were that in 1920 we abruptly stopped our lending to Europe, thereby sharply curtaling our exports at a critical time. Also we virtually halted our military appropriations. Additionally there was a smaller backlog of accumulated demand and of buying power. And finally, no farm price supports existed. The result was that price declines could spiral through the entire economy without significant supporting demands until a floor was reached.



How Present Conditions Differ

During World War II, price movements were dampened in relation to production but starting with decontrol and the first round of wage boosts, we had



a progression of price lifts resulting in the sharpest upward tilt of prices for such a relatively short span. But an important difference was the existence of far greater accumulated demand for goods, large savings and constant injection of new and substantial purchasing power by full employment at rising wages. Hence the inflationary spiral could continue much longer than earlier anticipated. Hence also the improbability of a price collapse in the foreseeable future.

Supplementary Support Through Government Spending

For in addition to the supporting elements cited before, we now have the Marshall Plan sustaining our exports. Our military appropriations are likely to continue high, and we have high farm price supports. The Government outlays may be only supplementary factors and of relatively minor importance when compared to the level of industrial demand and consumer spending. Yet they are of important marginal significance, providing a vital safeguard against drastic price developments with resultant depressive repercussions on the economy. Neither lower farm prices nor softening demand conditions in various consumer lines could so far spiral through the economy with upsetting overall effects.

What about the future? Admittedly it has been easy enough to influence demand and supply conditions with the aid of outside stimulants but experience shows that this cannot be done indefinitely. The infallability of such props is far from proved by their successful application in the more recent past. As we continue on the road to postwar adjustment, the question whether the boom can be further sustained by these means becomes increasingly difficult to answer. In fact right now, there is the pressing question whether the boom is about over or whether it is only pausing for a new tack.

Softening demand conditions are affecting a constantly widening area of the economy and have gradually spread to durable goods, heretofore one of the strong spots in the economic picture, partly because of mounting supply and partly because of price resistance. Consumption goods of virtually every type are once more abundant. But though the sharp drop in farm products prices has begun to lower some retail food prices, the general price level has not yet notably responded to the great postwar increase in civilian goods output. This is due in part to the fact that the wage level so far has moved only in one direction — upward, and is likely to continue this course, and industrial raw materials prices have held firm.

Current Trends

Physical production of industry has held steadily above last year's, at least until recently, but signs of a slow-down are appearing here and there. Orders are slowing as buyers wait for lower prices. Retail trade is lagging, and while employment stays high, lay-offs and production cutbacks are showing up. Prospects point to revival of a sharp competitive struggle for sales, a situation in which price will be the big factor. And the price line, it must be noted, is not holding as firm as it used to; signs of "disinflation" are multiplying. We know that backlogs of deferred demand have disappeared in most lines. The big question is: Is price inflation finally affecting consumer demand to the point where a downturn in business is inevitable?

Were these normal times, one could state with considerable conviction that we have now reached the stage where price inflation will take care of itself, that the trend towards lower living costs will relieve pressure for wage increases and may even work towards somewhat lower wage levels, permitting downward revision of prices to meet the present consumer attitude. But these are not normal times. Defense outlays and foreign aid make for continued high employment and rigid wage levels, and support raw materials prices in many directions, making downward price adjustment of consumer goods difficult except at the expense of corporate profits.

There is every indication that the boom has passed its peak and that a downswing is impending, much the same as a turn was believed at hand early in 1947 though signs today appear much stronger if only for the simple reason that the boom since then has become two years older.

The boom, definitely, has been losing momentum but whether it is over is another question. At this writing, no one can feel too sure about it until the pattern of political policy making is revealed in the President's messages to Congress early this month, in other words until we know how much of economic stimulus we may expect from such measures as rearmament, future foreign aid, possible lend-lease to Western Europe and just plain domestic pump-priming via public works, etc. One thing is certain: Fourth round wage hikes cannot turn the tide, once a downswing gets under way, any more than the third round could prevent the present slowing of activity. Wage boosts of this sort after all do not benefit the entire population; rather they make for even greater unbalance of purchasing power, pricing important segments of the population out of markets.

Boom Cycle Again at Crossroads

At present, the balance of forces is on the deflationary side. If they continue their natural course, it will take more than just a few billions of added Government outlays to keep the boom going at 1948 peak levels. Thus early in 1949, we shall again find ourselves at the crossroads; what the showdown will bring is anyone's guess but some further readjustment can hardly be avoided unless Government outlays are greatly stepped up. Only then can they remain dominant in the business picture in the sense that a cyclical trend reversal can once more be postponed. But that sort of spending, in turn, creates its own problems. At best, if the Federal budget can be kept in balance, we can look to an equalization of inflationary and deflationary forces. At worst we may court another dose of deflation.

Even though a moderate recession at this stage might not be an unmixed evil, no one would like to take much of a chance on starting deflation rolling. It may be difficult to stop once it really gets going. Present efforts aim at maintenance of the sort of economic balance that will keep continued prosperity and full employment from spilling over into renewed inflation, that at the same time can keep natural deflationary trends from snowballing into recession. In other words, public spending has to remain so powerful a force in the stream of business that readjustment in some industries cannot depress the overall picture.

The Best Kind of Stocks for Capital Gains Today.......

By J. C. CLIFFORD

With stock market prices continuing at relatively low levels, the way is open for investors mindful of appreciation potentials to act constructively. By this we do not mean to imply that lower prices may not appear, or that we see a bull market on the near horizon. More important, this is no time for indiscriminate selections. But the fact remains that at current low prices, sound equities are available at levels that give promise for substantial capital gains later on, quite apart from the excellent yield obtainable today. Considering these advantages that afford both relative safety and speculative potentials, there seems little excuse for the average investor to pick shares of lesser basic merit.

Statistical evidence refutes the popular theory that the best grade stocks offer only limited speculative opportunities and that hopes of achieving satisfactory gains will be better realized by concentrating purchases upon more speculative stocks. The Stock Exchange is an open market place where shares, as with any other form of wealth, fluctuate in price commensurate with variations in demand and supply rather than in quality. While it is unquestionably true that psychology and habit often create a stronger demand for low priced issues or those of lesser investment merit, thus rendering them more volatile, this seeming advantage is frequently more than offset by dividend instability and greater hazards.

Freed from such adverse factors, the high grade stocks follow the broad up and down swings of the general market to form speculative opportunities far more satisfactory than is commonly realized. Furthermore, since genuine operating success and earning power eventually determine the price level of all shares, the scales are distinctly weighted in favor of good quality issues for long term investment success.

The validity of this contention is confirmed by a study of the appended table that shows price ranges in the past three years for the MWS stock indexes for 100 high and low priced shares, for our 312 Stock Average, and the Dow-Jones Industrial Average. We include the latter because it represents the price action of selected high grade stocks. For additional comparison, we show similar price ranges of the six stocks we have chosen for discussion. On another table we also present statistics pertinent to the shares of these six concerns including book values, earnings, dividends, yields and price-earnings ratios.

Examination of the price volatility in the different group indexes mentioned discloses a spread of 49.38 points in the Dow-Jones Industrial average for 1946, 23.64 points in 1947 and 27.77 points in 1948. The Magazine of Wall Street Index of High Priced Stocks established a spread of 32.09 points in 1946, 17.29 in 1947 and 16.57 in 1948. In contrast the MWS Index of 100 Low Priced Stocks, most of which may be assumed to be of more speculative hue, experienced a spread of 91.48 points in 1946, 58.79 in 1947 and 47.76 in 1948. Quite obviously the latter would have the best of the argument if substantial variations in price were the main factor involved, and provided both selectivity and timing were adroit.

The point is, however, that without surrendering the ultimate in safety factors attached to exceptionally high grade stocks, holders of the latter during the three year period in each interval enjoyed some significant opportunities for capital gains, conceivably several times larger than dividend income. Yet had they been reluctant or insufficiently skillful to accept capital gains, their funds at all times would have been employed in desirable investment media affording assured income.

Granted that good grade stocks, available today at exceptionally low prices in many instances, offer worthwhile profit potentials that make them desirable even for the employment of venture capital normally finding its way into more speculative, marginal or unseasoned growth situations, there is still need for discrimination and selectivity, particularly with an eye on prospective business and operating conditions. With buyers' markets on hand or in sight in more lines, making for return of competitive business, good management will be at a premium and should be looked for. For it is up to management to evolve policies that assure progress even when the going gets rougher, both from a sales and operating standpoint.

It will have to deal constructively with inventories,

*Pertinent Statistical Data**

	Book Value‡	Earnings Per Share 1946	1947	9 mos. 1948	Dividends Per Share 1947	1948	Div. Yield§	Price-Earnings Ratio†	Recent Price
Abbott Laboratories	$24.06	$5.79	$5.46	$4.62	$3.25	$3.40 a	5.2%	11.9	$65
Diamond Match	38.28	2.32	2.63	2.82	2.00	2.00	5.0	15.2	40
Eastman Kodak	23.47	2.85	3.46	2.25 b	1.55	1.65	3.7	13.0	45
General Electric	16.35	1.49	3.30	2.91	1.60	1.70	4.4	11.8	39
Monsanto Chemical	20.93	2.37	3.59	2.51	2.00	2.00	4.3	13.0	47
Montgomery Ward	65.74	6.29	8.86	7.71	3.00	3.00	5.5	6.8	55

‡—Latest indicated.
*—Figures adjusted for stock splits.
a—Includes $1.00 payable January 3, 1949.
§—Based on 1948 dividends.
†—Based on 1947 earnings.
b—24 weeks ended June 12.

profit margins, high break-even points, cost controls, and financial matters. And every one of these points deserves increased consideration from an investment viewpoint. A long record of earnings and dividend stability naturally attests to managerial efficiency, but the future outlook is just as important as the past, if not more so. The old saying "It's what you are to-day" applies forcibly to the appraisal of shares under today's conditions.

Soundly operating companies today will not be unduly extended inventorywise; their profit margins will have an ample cushion against contracting tendencies; their finances will not be strained, or subject to possible future strain, because of heavy capital expansion, particularly debt expansion; management will be progressive as well as aggressive. There is need today to look into depreciation policies, whether reserves are adequate under today's conditions. Nor should labor relations be ignored; it is an important point in view of today's rigid wage factors in industry.

Of basic importance, of course, is the selection of an industry where promising sales and earnings prospects are fairly clearly indicated, where demand conditions point to continuation of active business. Prospects for well maintained earnings provide the main clue where any given stock, at recent depressed market levels, appears undervalued; in this connection it must be understood that exceptionally low price-earnings ratios so characteristic of today's market, per se are by no means automatic indicators of undervaluation; they may merely reflect investor distrust in the outlook or in a company's ability to maintain earnings at existing levels. On the other hand, a fairly high ratio reflects not only investment quality but confidence in future growth.

Thus the stocks which we have selected for discussion are not primarily issues selling at low ratios to earnings or offering abnormally high yields. Indicative of their sound basic quality and promising long term prospects, yield is no more than average and price-earnings ratios are above average. The same should be true of long term appreciation potentials.

Diamond Match Company

For almost three generations this dominant enterprise in its field has steadily forged ahead, successfully meeting the test of wars and depression periods. Basically, the expendable character of matches, their widespread demand and low price, have stabilized the company's operations in an extraordinary manner. An unbroken dividend record for 66 years attests to efficient management and the intrinsic soundness of the business. Vigorous growth in volume during the last ten years pushed sales in 1947 to a record high of $67.5 million compared to $26.3 million in 1938, with a corresponding gain in per share net earnings to $2.63 compared with $1.60. Working capital of $55.6 million at the end of last year was at an all-time high, with the current ratio better than 4 to 1.

Added confidence to the operations of Diamond Match Company is occasioned by complete integration and broad product diversification. The company owns more than a quarter million acres of timberland on the Pacific Coast, Minnesota and in Maine. Quite aside from providing materials for matches, this supply has been utilized to build up large production of lumber, sold through the company's retail yards, of clothes pins, paper tissues, tooth picks, etc. Manufacture of these items, as well as of explosive chemicals, has proved very profitable. Their combined sales now account for more than half of the company's annual volume.

Diamond Match shares, recently selling at 40, provide a yield of 5%, and this seems dependable as the company has always distributed a liberal share of earnings. For nine months of 1948, net earnings of $2.82 per share easily covered total 1948 dividends of $2. Despite the high quality of these shares, it will be seen from our table that they experience substantial price fluctuations and at their present level are about 4 points above the year's low of 35⅞. In 1946, they sold as high as 50½.

Abbott Laboratories

Confidence in the investment merits of this company's shares has been engendered not only by its dynamic growth during the last twenty years or so, but by sound evidence that volume and earnings should continue highly satisfactory as in former periods. Abbott Laboratories specializes in the production of ethical drugs, manufacturing over 800 items. Elaborate research facilities and exceptional repute among members of the medical profession have helped to entrench this concern strongly among distributors all over the world. This has served to maintain adequate profit margins despite widespread competition. Since 1926 operations have been consistently profitable; sales steadily increased to a level of close to $60 million in 1947 and both volume and net earnings may have established new high records in 1948. Shareholders have never failed to receive dividends

in more than two decades, declarations during 1948 amounting to $3.40 per share, including several extras. The company's capital structure is simple, with neither bonds nor preferred ahead of the common. Working capital of $30.9 million at the end of 1947 was of record size despite large outlays for expansion and modernization of facilities. Net earnings exceeded $5 per share in both 1946 and 1947 and may reach $6 in 1948.

Attesting to considerable investor esteem, Abbott Laboratories shares usually sell at a rather liberal price in relation to earnings, the ratio in 1946 topping 15 when quotations reached a peak of 91. Our table shows that a current price of 65 establishes a price-earnings ratio of 11.9. At their 1948 high of 79¾, these shares were about 23% above the recent level, at the 1947 high 38% above and at the 1946 high they were 43% higher. These variations seem hardly logical in view of the company's marked progress earningswise, and since the recent price of 65 is close to the lows for two years past, there seems room for substantial appreciation. A yield of 5.2% on a stock of this quality is an attractive factor.

Eastman Kodak Company

In the stock of this outstanding enterprise we have another example of unquestioned merit as to fundamentals not fully reflected by recent quotations. A recent price of 45, while not far below a high of 46⅜ for 1948, is considerably below the peak of 53⅜ established in 1946 when the company's earnings were well under present proportions. Reported net earnings of $2.25 per share for 24 weeks ended June 30 indicate that net for the year may be around $4.75 compared with $3.46 in 1947 and $2.85 a year earlier. Eastman's output of photographic products has now reached a point close to demand but its long maintained dominant trade position should hold sales near to present levels, at least while the national income remains stable. In recent years, the company's main subsidiary, Tennessee Eastman, has contributed an increasingly substantial proportion of sales and profits through production of cellulose acetate items. Working capital of more than $120 million amply meets all requirements and enhances the outlook for dividend stability. Payments to shareholders have been regular since 1902 and considering the bright outlook for 1948 earnings, distributions of $1.65 per share have been very conservative. If 1948 net comes up to the $4.75 per share indicated, more liberal payments may be made in the near term. In this event, the rather modest dividend yield of 3.7% would be improved and the stage would probably be set for some appreciation in the share prices.

General Electric Company

Recent optimistic statements by Charles E. Wilson, president of General Electric Company strengthens confidence in the outlook of this leading electrical company. A predicted volume of $1.6 billion in 1948 would top the best wartime record by about $123 million. Looking ahead, Mr. Wilson expects another good year in 1949, barring a fourth round wage boost that might raise prices undesirably high.

While supply of certain household appliances and small motors has now overtaken demand, General Electric has on hand huge orders for equipment in the utility field, which will require two years to fill. By next year, the company will have in operation a new $30 million plant for the production of turbines, and output of television units will increasingly help to bolster volume. Net profit margins of this concern have narrowed to about 7% of sales compared with 12.4% in 1940, but greatly expanded volume is keeping per share earnings on a satisfactory level.

As for 1948, total dividends of $1.70 per share compare with probable net of close to $4, judging from nine months earnings of $2.91 per share. Despite the consistently strong regard of investors for General Electric, the stock has considerable volatility, however, as our table well reveals. It is interesting to note, though, that prices at their lows seem to have met strong resistance at around 32 in each of the last three years. On the other hand a high range of from about 40 to 52 was established in the same period. The current price around 39 is about midway between the two extremes, thus leaving considerable room for satisfactory percentage gains on any future market upswing.

Monsanto Chemical Company

Shares of this leading chemical manufacturer, recently selling at 47, have considerable speculative appeal as well as investment merit. The current quotation is close to the average low in each of the three last years though well below the average high of 63. At their current price level, these shares seem very reasonably priced in view of Monsanto's dynamic growth in recent years and its excellent record for twenty years or more past. An uninterrupted dividend record extends back to 1926 and payments have been well covered by earnings. Regardless of curtailed production occasioned by the fire disaster in the company's Texas plant, 1948 net earnings should be comparable to the $3.59 per share reported in 1947. Receipt of $17.3 million from insurance claims last October should have lifted working capital to an all-time high of more than $60 million.

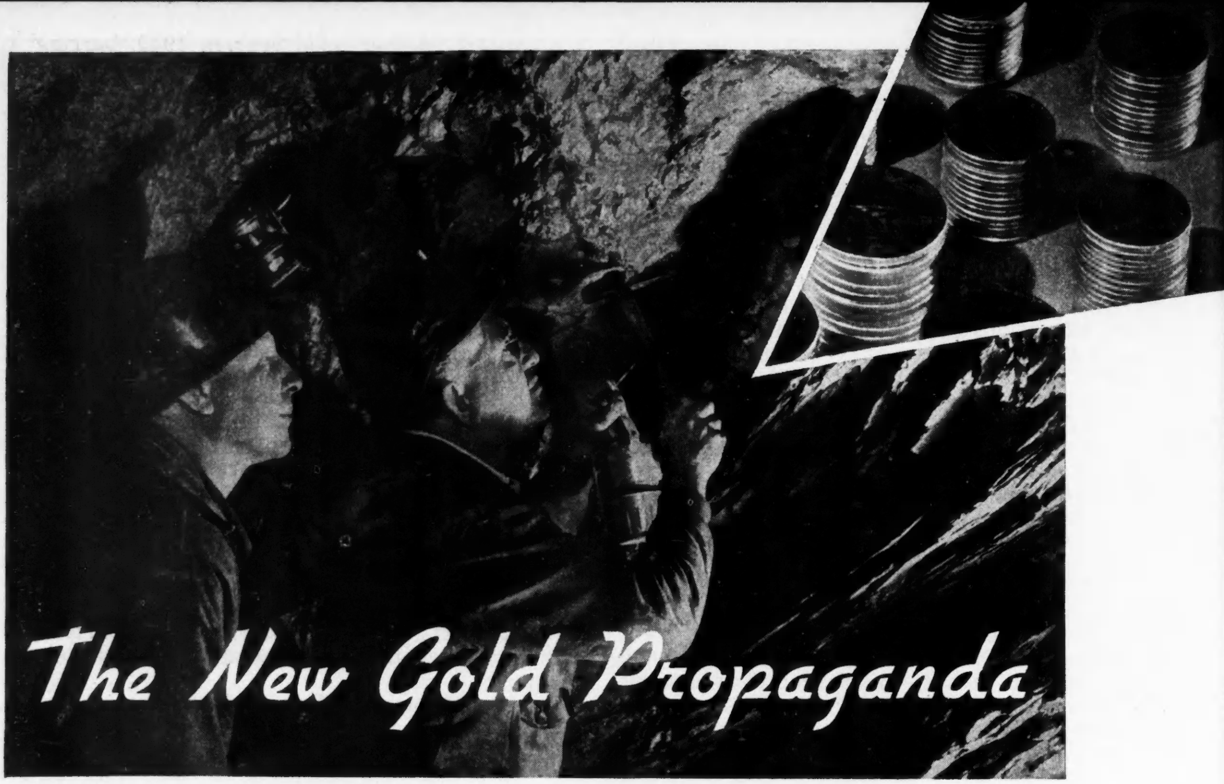
Montgomery Ward & Company

Volume and earnings of this giant mail order concern established new rec- (*Please turn to page* 362)

*Comparative Table of Price Movements**

	1946 High-Low	1947 High-Low	1948 High-Low	Recent
Magazine of Wall Street Combined Average	191.7 -129.8	148.8 -111.5	151.9 -119.0	124.8
M. of W. S. 100 High Priced Stocks	112.55- 80.46	89.87- 72.58	91.84- 75.27	79.54
M. of W. S. 100 Low Priced Stocks	247.97-156.49	183.14-124.35	182.86-135.10	141.64
Dow Jones Industrial Average	212.50-163.12	186.85-163.21	193.16-165.39	176.59
Abbott Laboratories	91 -41¼	87½-66½	79¾-63¾	65
Diamond Match	50½-34½	47 -35½	46 -35⅞	40
Eastman Kodak	53⅝-40⅛	49¼-42½	46⅜-38⅛	45
General Electric	52 -33½	39⅞-32	43 -31¾	39
Monsanto Chemical	64 -38⅝	63¾-49⅛	61⅝-45¼	47
Montgomery Ward	104¼-57¼	64⅝-49	65 -47¼	55

*—Figures adjusted for stock splits.



The New Gold Propaganda

By H. M. TREMAINE

In booms and depressions, the eternal dispute about the price of gold, and gold's monetary functions, is always greatly accentuated and the present period of boom and inflation is no exception. Gold propaganda, ever since the war's end, has been quite active though rising and falling, wavelike, with varying intensity, emphasis and frequency. It reached a new crescendo just before the elections, possibly in the expectation that a Republican victory might at long last lead to some action.

Thus again, as frequently in the past, we were flooded with numerous rumors and arguments why the price of gold should be raised, and "sound money" advocates pressed volubly and with renewed vigor the idea of restoration of free convertibility of paper money into gold coin. But the old clichés and fallacies sounded no more convincing than before despite a new daring in approach, and more recently a new note of urgency probably born of recognition that chances of action under a Truman Administration are none too good.

Perhaps because of the many past failures, propaganda for a higher gold price has been at once more subtle and more aggressive. This time little has appeared in public print but private "conversations" and soundings were pushed all the more vigorously with ideas of what the new gold price should be, ranging as high as $100 an ounce. To make it more palatable, the thought was added that writing up our $24 billion gold hoard to the new level might be an excellent and practically painless way of reducing drastically our national debt.

Behind this drive were mainly the gold producers, particularly those abroad; from their standpoint the argument for a higher gold price is exceedingly logical. Like everyone else, they suffer from inflation, that is rising costs and wages, yet they must sell their output at a fixed price that has remained unchanged since 1934. This rigidity of the gold price, despite mounting levels of all other prices, has caused reduced world gold production and depression conditions in the gold mining industries. For despite large premimus paid for gold in "free" or black markets all over the world, the official gold prices based on our statutory price of $35 an ounce are those at which the bulk of the international traffic in gold is effected, and they are the prices at which most of the world's newly mined gold has to be sold. Naturally gold producers would like to get the benefit of the wide premiums paid inofficially. And beyond that, foreign producing countries would like to see a higher gold price as an aid in the solution of their serious balance of payments problems.

U. S. Attitude Is Key

The key to the question of a higher gold price lies in the attitude of the United States, hence the propaganda drive in this country whose position is powerfully influenced by two considerations. One is the fact that we are by no means the most important gold producers and thus have no particular national interest to serve in raising the dollar price of gold. The second is fear of the serious inflationary implications of such action, of the enormous gold influx that would inevitably follow. Obviously the objective of a revamping of gold-currency relationships would be encouragement of world gold production to cover as much as possible of the dollar deficit of foreign countries. And apart from new inflationary pressures, any change in the dollar price of gold would inject fresh uncertainties throughout the world and undermine the dollar at a time when stability is particularly necessary and

when the dollar-gold relationship is of focal importance.

It seems ironic to witness gold price agitation in a period of high inflation when traditionally such action has been taken to overcome depressions and bolster falling prices. This was done in 1933 when the gold content of the dollar was lowered by about 40% through successive advances of the gold price until it reached the present figure of $35 an ounce as against the former level of $20.67. At that time also, convertibility was abandoned and the people ordered to turn in their gold to the Treasury.

One-way Flow of Gold

As we know, this historic action failed to exert any great immediate effect on the price level. At that time our position was such as to attract more and more gold from other countries. At the time of revaluation, we had about $7 billion of the yellow metal. Today we have over $24 billion or about three-fifths of the world's gold stock.

Today we are even more in a position to attract the world's gold, thanks to the lopsided trade conditions prevailing since the war's end, to the world's needs for our goods and foodstuffs, to the need for American aid in rehabilitation and reconstruction. Were we to raise our gold price, the influx of gold into this country would expand greatly — in exchange for dollars and for our goods. Resultant inflationary pressures on the homefront would be two-fold: First by the direct impact on the price level of increased foreign competition for our goods. Foreign nations would have more dollars to bid for our production, sending prices still higher. Secondly, because the gold influx would add to our already inflated money supply.

Even at the present and much criticized gold price of $35 an ounce, the metal is flowing into this country in unwanted quantities despite the higher prices for gold available in free or black markets abroad. It's been coming in at a rate of over $1 billion a year only to wind up as part of the nation's bank reserves, broadening our credit base. It's been pouring in, in the past, not only from gold producing countries such as Canada, South Africa and even from Russia, but from virtually every other country while their gold reserves lasted. More gold is something we definitely don't want, and certainly don't need. And more we would get, though the present inflow is already a major headache.

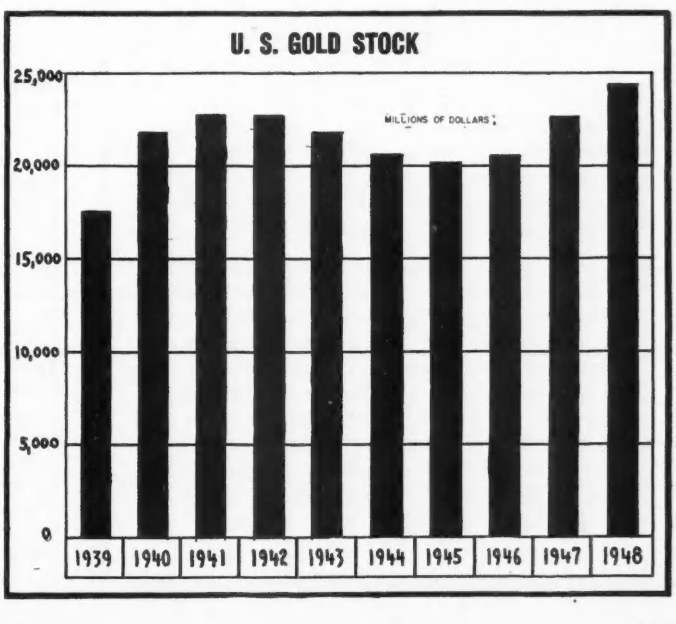
Admittedly raising the gold price would greatly benefit the economies of gold producing nations though probably only temporarily so. A higher gold price would certainly tend to inflate the prices of goods internationally, thus any advantage accruing to foreign countries might be shortlived. Moreover, while making our exports cheaper temporarily with a resultant drain on our resources, it would make our imports dearer with a consequent tendency either towards shrinking imports or price-boosting effects on the domestic price level, or both. Neither is desirable. Thus although a higher gold price may act as a temporary "shot in the arm" of foreign economies, from our own standpoint there would be no logic in such a move unless deflationary forces become once more acute, and such a prospect is not yet.

Hard times, not good times are the generators of currency devaluation, and our currency, in terms of purchasing power, is already devalued too much by the postwar price inflation. While our gold producers and those all over the world would like to see the Treasury increase its gold buying price, thereby raising their profits, the resultant further depreciation in the dollar's purchasing power would only intensify existing pressures and problems.

On purely economic grounds, there is no justification to raise the gold price further. We are not suffering from falling prices, but from inflation and would merely risk its strong revival. We would undermine confidence in our currency, today still the world's strongest and soundest, and we would needlessly contribute to monetary and economic turmoil at a time when every effort must be made to foster stability and equilibrium. This is why the world's money managers as represented by the International Monetary Fund are greatly concerned over the premium prices paid for gold abroad. They know that wherever gold is sold at a premium, it has a tendency to flow to those markets, upsetting existing exchange relationships and reducing the amount of gold available to governments for official transactions and for currency backing.

Dollar Tampering Now Worse Than Useless

Until the time has come for worldwide currency reform, tampering with the dollar by raising the gold price would be worse than useless. And until such time, agitation "to do something for gold" will continue. We are bound to hear talk of gold "scarcities" and gold "maldistribution" until government finances are put into order all around the world and until people abroad begin to regain confidence in their currencies. Raising the gold price cannot restore such confidence any more than gold mining could ever match the pace of the printing presses when running at top speed. It would merely mean a setback to the painfully slow and expensive task of rebuilding a (*Please turn to page* 357)



PREVIEW OF COMING EVENTS

By E. K. T.

HOUSING LEGISLATION, while it was an important issue in the national campaign, probably will not develop into a drastic bill, according to the best advice in the Capital — including the jelled opinions of the public housers in the several agencies concerned. There are constitutional limitations beyond which congress cannot go; there must be a legal relationship between any appropriation and its purpose, which simmers down to sustaining fair competition, protecting life, health and public safety. It doesn't mean a new house, or even a better house, for every citizen. Private industry is certain to be given opportunity, first, to prove its ability to meet the need. Seems to be doing so!

WASHINGTON SEES:

Unless the safety valve atop the U. S. Capitol dome functions efficiently, political big-wigs may be blown in all directions before they get down to the serious business of considering the legislative framework of the "Truman Deal." There's that much steam being generated already.

Neither political party has a monopoly on the always dangerous business of family fighting. Senator Taft is the target of several groups in his own party (his friends say the "liberals" are looking for a scapegoat to explain the election defeat), but he will put up a stiff fight to retain the policy committee chairmanship which goes far to fix GOP stand on legislation. He probably will win that, but he will lose the Republican Conference chairmanship to Senator Vandenberg — dropping a post almost as powerful. "Liberal" Senators — Smith and Baldwin are examples—will try to oust Senator Wherry as republican whip. They may succeed, but the odds point the other way.

Democrats are having their fight on committee assignments. Seniority still rules and most of the elder democrats in point of service are southerners with a tinge of Dixiecrat-ism. Members of the labor bloc want seniority dropped, warn that the union vote will be lost if it isn't. They have their eyes particularly on the labor and rules committees. Rep. Sam Rayburn, who'll be the next speaker, is a Texan, a beneficiary of seniority, and the fight is on. The result could — probably will — be slowing of necessary legislation.

ABOLITION of price control by the republican-controlled congress was the issue on which many candidates won election. Noteworthy was the selection of former OPA Chief Chester Bowles as Governor of Connecticut—he used almost no other line of attack in a normally republican state, ousted a GOP governor. But that doesn't mean price control is on its way back! Its complexities were numerous; its headaches were tremendous. While it met its death at the hands of republican controlled branches of congress, the roll call of votes shows a powerful democratic assistance, which will be back in the next session, joined in the obsequies. Actually, President Truman is dodging on the point!

SCALP of effective and efficient Cyrus Ching, head of the U. S. Conciliation Service, is being demanded by organized labor as one of the rewards of its work toward election of the Truman-Barkley ticket. Ching has handled labor-management problems which have reached the Washington level for two years, has prevented numerous strikes, settled others. Labor concedes that. But what is wanted is an end to the separate conciliation service, which would automatically return the functions to the Labor Department and "friendly" Secretary Maurice Tobin. Ching, it's pointed out, was a NAM vice president!

STRESS placed upon the failure of armed forces unification to work out successfully appears to be placed upon the "who's who" aspect of the program — who wears the most brass, speaks the loudest, and enjoys social protocol; but there's a very important side of the question which was not fully exposed until the Eberstadt Committee released its report. It is the budgetary problem created by the failure of the forces to get together. They're pulling separately for high shares of armed forces appropriations.

As We Go To Press

The man who should know best, President Truman, will tell the new democrat-controlled congress, January 5 what to expect in the line of Administration measures next year. He will appear personally before a joint session to give the added prestige of his presence to a drive on a far-flung front. Already, it appears that he may get more opposition from his own party than from the republicans. Leading democrats have cautioned against going too far on the excess profits tax proposals and, of course, on civil rights. Speaker Joseph W. Martin, on the other hand, has commented with a heavy overtone of despair, that the President can get just about anything he asks, legislatively, in the early months of the session -- a throwback to the "First 100 Days of the New Deal" 15 years ago.

From White House and departmental circles comes word that the President and his advisers, made braver by the election returns and realizing they have an excellent chance of controlling all three branches of the government for the next four years at least, intend to map a program covering that period. It will not be a set of recommendations covering only immediate problems; it will be that and more too -- it will constitute what will come to be known as a "Truman Deal."

President Truman is not expected to talk at great length or in precise detail in his "State of the Union Message." He will set up the framework, look to his political wheel-horses on Capitol Hill to fill it in. It will be specific on some points: repeal the Taft-Hartley Act (which no one in the White House seems confident will be accomplished); raise taxes, pay off the national debt at an accelerated pace, hold government bureaus down to a minimum of expenditure consistent with sound business methods. And Mr. Truman doesn't regard the Taber appropriation slashes to fill that bill. He wants more money for several agencies, notably those closely related with his election victory -- Labor and Agriculture.

President Truman's personally-read message will be re-read many times. But the interval between the broad assertions and the particularization will not be long. The budget message, which will embrace ideas on government spending and taxation, will come along in a day or two. It will be a complicated, not-too-revealing document, except as to totals. And there will be even a third message! It will deal with the general economic situation of the United States, as complicated by heavy military expenditures and the necessity of continuing aid to foreign countries.

It has been said, with good documentation, that the President is not a vindictive man. There could be a mild exception to that: he is peeved to the point of incipient fury at the refusal of congress to go along on his ideas of taxation and can be counted upon to drive for revision, and reversion, of most of the things the Knutson bloc put through in the past session on that subject. There is danger of some legislative over-reaching in the comment, attributed to the President, that the GOP tax measures this year add up to a "rich man's bill."

Naturally, there will be sections on social legislation. The White House is determined that the Social Security Act shall be extended. There was tendency in the past session to remove from, rather than add to, the number of persons covered by payroll taxes. Outstanding was the Gearhart Bill, which took a large body of merchandise vendors out of coverage -- accomplished over a Presidential veto which sets out Mr. Truman's position on the entire subject and warrants re-reading in the light of

proposals that are bound to multiply when the "freshmen" congressmen arrive and begin the chore of carrying out some loosely-made campaign pledges.

The return of Dixiecrats to the democratic party organization will not be encouraged by the repetition of demands for civil rights legislation which drove them off the reservation. Southern political leaders already are working on the idea of convincing the voters in their areas that the civil rights bills will be reintroduced -- and forgotten. They could be dead right! The republican party espoused a "rights" platform that displeased the Dixiecrats, but received no encouragement from the northern electors to whom the appeal was addressed. The political stratagem may be to make Mr. Truman and his leaders carry the ball in the hope that the cleavage may continue, eventually return political pay dirt to the candidates of the GOP.

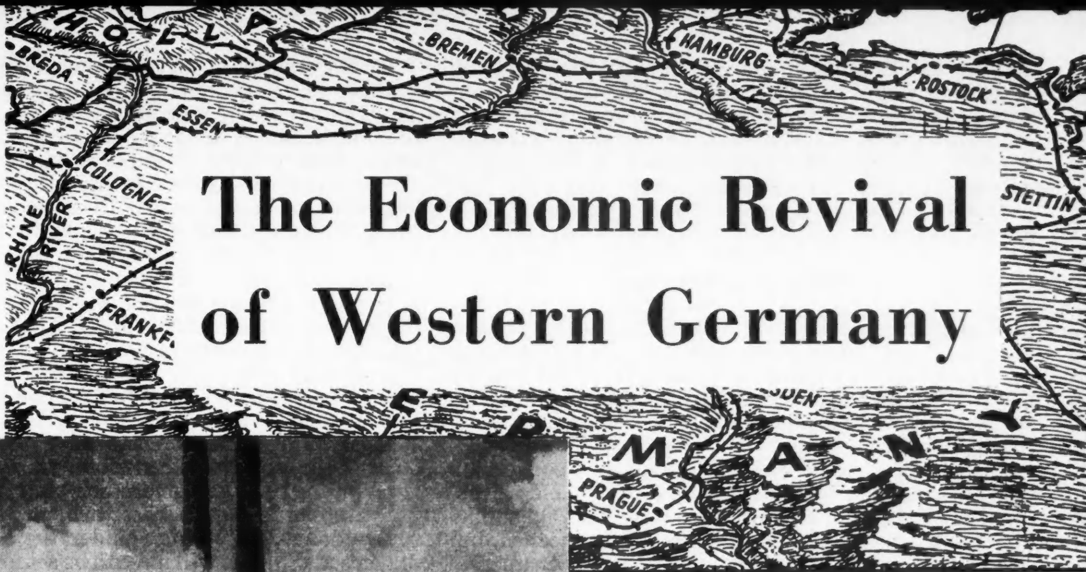
Congress will move fast to increase the salary of the President and at least the top-ranking federal officials -- possibly enact a pay boost covering all federal workers. As previously recited the ultimate objective is to bring on new grants to the senators and representatives, themselves, although they will have to skirt constitutional provisions to gain anything during the next two years -- the term to which most of them were elected. That won't square with the idea of lowering costs of government. But that hasn't been an effective roadblock to legislation in the past!

Meanwhile, some events abroad are shaping up in a manner which will have a direct impact upon expenditures and their essential corollary -- taxation. Inflation in France is driving down the franc at such a clip that a serious problem is being posed for ECA. It has been estimated by respectable authority here that 80 per cent of the dollars that Americans as tourists and visitors bring into France goes into individual hiding places. Hoarding naturally limits the amount of money employable for purchase of American materials needed to increase the industrial and agricultural production in France. To that extent it is defeating the basic purpose of the Marshall Plan -- to make Europe self-sustaining.

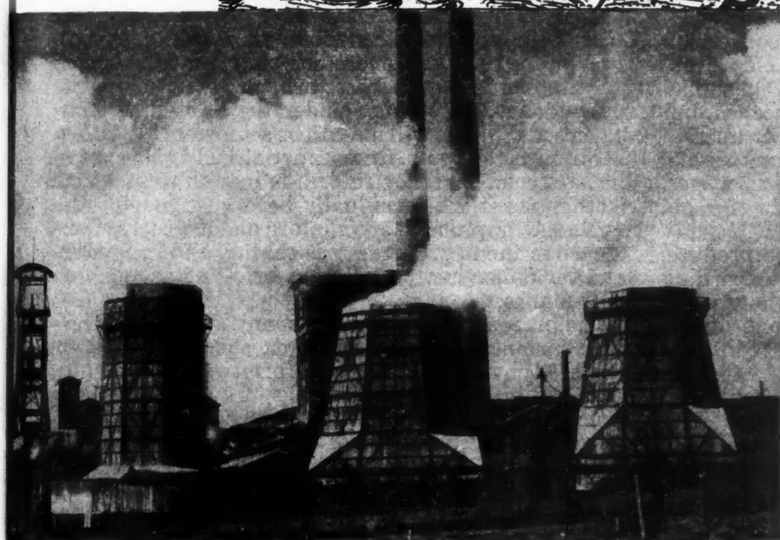
State Department insists that money sent abroad should not be used to engineer political control in any country, but there are men high in the councils of this government who are beginning to express fear that this is too pious a declaration, and not sufficiently practical. The Queuille government is being regarded as a stop-gap, marking time until the issue of de-Gaullism vs. communism is resolved, taking little or no affirmative action. There isn't sufficient encouragement meanwhile to exercise a high degree of central control and, until there is a change in that direction, question is raised on Capitol Hill whether ECA should be continued on its present costly basis, limited -- or dropped!

Added to the "fixed charges" of the federal government through action by the next session of congress, will be an educational bill. What shape it takes will determine whether it will be an extremely costly undertaking, or prove to be only a minor outlay. Present odds favor the latter course. The fight will come first between those who want federal aid to the states or local governments for operations of schools (higher teachers' salaries, etc.) and those who want aid given for capital improvements (new schools or extensions to existing buildings.) A secondary fight will be whether control of any funds appropriated shall be from Washington or from the State Houses -- whether the allocations will be made by states or by municipalities. And the former method is likely to prevail.

As congress prepares for a fateful session, the Administration is bullish on 1949 business prospects -- indicated clearly in statements by Secretaries Snyder and Sawyer -- but business representatives and trade associations here are watchfully waiting. There's the certainty of some increase in labor costs, in transportation costs ,and at the same time lowered prices -- not all across the board, but substantial. Final guesses must await the White House messages and the early reactions of congress.



The Economic Revival of Western Germany



By V. L. HOROTH

The almost spectacular recovery of German production and business activity following the June currency reform made the future prospects for the three western ones of Germany (Trizonia) suddenly look much brighter. Apathy and despair seemed to have vanished, and for a few months the German people gave such an exhibition of energy, self-confidence, and individual incentive that it appeared that Trizonia would be back on its feet before most of the other Western European countries. Some Frenchmen, seeing their own country floundering in the midst of inflation and political turmoil, began to worry about too fast a recovery of Germany, while in Great Britain there were signs of uneasiness about the early reappearance of German goods in international markets.

However, this feeling of optimism was unwarranted. It was unwarranted, in view of the tremendous economic, financial and social problems facing Western Germany as well as because of the disintegration of its economy under the strains of the Second World War, the "cold war," mass transplantation of her people, and de-industrialization. By September, it became evident that the currency reform alone could not be the panacea that it had seemed to be a few months earlier. None of the other problems were nearer to solution. As a matter of fact, it became clear that unless something was done about them — particularly about the future "industrial level" and the unbalanced budgets of individual states — the currency reform itself would be in danger. It also became clear that once confidence in the new Deutsche Mark (D-mark) was undermined, all progress toward recovery would be slowed down, and the carrying out of the Marshall Plan in Western Germany imperiled.

The currency reform in Western Germany was made much more than a replacement of an inflated currency by a new one. Since the old reichsmark was used to buy goods only against ration coupons, it is probably more correct to say that there was no money at all. The black market and barter probably accounted for 70 to 80 per cent of all transactions. The object of the currency reform was to replace the black market and barter economy, where prices and production bore no relation to each other, with a traditional money economy, which would permit once more a free interplay of costs, prices, and wages, and which, by allowing a man free choice with his money, would restore order and incentive which the years of bureaucratic planning and totalitarian economy had almost destroyed.

The currency reform and the re-establishing of the price mechanism were to be the means by which German production was to be encouraged. It was to be the first rung on the ladder to the rehabilitation and reshaping of Western German economy. This is why so much is involved. A collapse of the Deutsche Mark would shatter German confidence not only in the good intentions of the Western Allies, but also in the free enterprise system.

Urgent Need for Currency Reform

German currency reform was long overdue. Under the barter and the black market economy there was no incentive to produce. The incentive was to produce less because the scarcer the goods, the more advantageous was the barter or the black market deal. Three years after the end of the war, the output of the three Western German zones was 35 to 40 per cent of the pre-war (1936) capacity. Germany was rapidly

having an economy of scarcity. People were getting desperately short of all essentials. The densely populated country was starving. Underproduction did not remain without repercussions on Germany's former trading partners. The Netherlands and Italy in particular could not fully recover until Germany was restored to its former role as the market for their goods and as a supplier of industrial products.

Terms of Conversion

The currency reform was modeled on the pattern of the earlier Austrian reform. Ten old reichsmarks were exchanged for one new deutsche mark, and the same ratio was also applied to bank deposits, mortgages, municipal bonds, and all other recurrent debts. One-half of the exchanged D-marks had to be redeposited in blocked accounts, however, and conversion by individuals of bank deposits over 5,000 old reichsmarks was permitted only after the Tax Office had cleared them. The old Reich debt was cancelled, but also wiped out were the deposits of all governmental agencies and institutions, and most the bank assets. On the other hand the payment of salaries, wages, and pensions was to continue on the basis of 1 old reichsmark for 1 new deutsche mark.

To strengthen the incentive to work and produce, a tax reform was passed at the same time. According to the New York Federal Reserve Bank, it consisted of a cut of income taxes by one-third, a cut in property taxes by more than one-half, and the fixing of the corporate profit tax at 50 per cent.

The first results of the currency reform, tax reduction, and abandonment of price controls (except over certain essentials) were almost sensational. Within four months, industrial production rose over 50 per cent to almost 70 per cent of the 1936 level. Steel output increased from the annual rate of about 4 million tons to over 7 millions tons. The output of bricks, glass, rubber, and electrical equipment advanced to prewar levels. Coal became almost a glut, since large stocks began to be used for production instead of barter. Thousands of small enterprises and shops mushroomed all over the country. Increased production was augmented by the goods coming out of hoards and by a good harvest. Absenteeism in factories fell off substantially, as the workers no longer needed to comb the countryside in search of food. Last but not least, prices declined considerably below the former black market levels.

Germany: Area, Population, Population Density

	Area (in 000 sq. miles)	Population (000,000) (1946 Census)	Persons per sq. mile 1939	1946
British Zone	37.7	22.3	525	591
U. S. Zone	41.5	17.2	244	414
Bizonia	79.2	39.5		
French Zone	16.5	5.9	376	360
Trizonia	95.7	45.4		
Soviet Zone	41.6	17.3	365	417
Berlin	.3	3.2		
Total Germany	137.7	65.9	435	479

Note: In 1939 there were 33 acres of agricultural acreage per 100 persons; in 1946 there were only 23 acres per 100 persons. British Zone; about as large as Virginia; U. S. Zone and Soviet Zones about as large as Ohio (each); French Zone about as large as New Hampshire and Masachusetts combined.

By the middle of last September, things began to change. The huge stocks of hoarded goods were sold out. The supply of new goods coming on the market became adjusted to the current production and a rather slim volume of imports which were paid for by the Western Allies. On the other hand, demand continued to be voracious. Everybody needed something. Nobody saved. Money began to circulate faster, and bank withdrawals regularly exceeded savings. Prices turned upward again. People started to speculate and hoard goods once more. Some of the new business ventures collapsed. By October, many goods disappeared or their prices got out of the reach of the average consumer. There followed a demand for higher wages and strikes, as well as for reintroduction of price controls and rationing.

Meanwhile German costs have been rising. The outlook for exports, excellent only a few months ago, is changing. The exporters complain that the external value of the D-mark, set arbitrarily at 3.3 marks to the dollar, is too high under the present circumstances and that it will have to be set lower if Western Germany is to export. Rumors are already widespread that a second currency reform is inevitable and that another mark will eventually be exchanged for the D-mark to apprehend speculators and hoarders. Confidence in the new currency is ebbing, and in Switerland the dollar is reported to be bringing as many as 25 D-marks.

The present situation in Germany is merely a German variant of "too much money chasing too few goods." When the currency reform was carried out, some 163 billion old reichsmarks of outstanding currency and bank deposits were reduced to about 8 billion new deutsche marks of deposit, and about 3 billion of cash. The cash has since increased to about 7 or 8 billion. One reason was the release last October of $1\frac{1}{2}$ billion of new marks from the individual blocked accounts against the advice of German and American experts, but at the insistence of the French.

Rapid Expansion of Purchasing Power

A number of other developments — over some of which the Germans have no control — has been responsible for the too rapid expansion of purchasing power in Trizonia. The granting of too much credit for housing repair, construction and other investments which do not provide a quick return in production, has been one of them. An outstanding example is the cost of rebuilding the railroad system. German state railways are expected to incur a deficit of about 400 million D-mark by next March. Although the interest rates are about 10 per cent, people are anxious to borrow to repair their houses. To refuse is difficult. Housing is essential to keep up the morale.

Tax evasion is another problem. The present German income tax is the most steeply progressive of any country in Western Europe. No German can have a net annual income larger than 60,000 marks ($18,000). Property taxes are also stiff; a capital levy is reported to be in preparation that will put a first mortgage on all property that has suffered less than 50 per cent of war damage. Moreover, according to the London Economist, some of the German payment of occupation costs, which has convinced every German that he is chiefly asked to pay income tax to keep a foreign in luxury on his soil."

However, by far the most important factor contributing to the expansion of German purchasing power have been the deficits of various German

"Laender" — or States. Mr. E. A. Morrow, the New York Times correspondent in Berlin, reported recently that during the four months following the June currency reform, the deficit of German States contributed more than one billion deutsche marks to the increased purchasing power.

Since about 30 to 40 per cent of the State budgets are spent for occupation costs (60 per cent in the French zone), Germans are naturally blaming the Western Allies for the currency plight. To some extent they are right. The occupation costs may be somewhat swollen by too carefree military authorities. For example, a member of the Hamburg Town Council, Herr Klabunde, argued recently that in Bizonia alone the military authorities employed more than 650,000 civilian personnel; its reduction to one-third would save about 800 million deutsche marks. Similiarly, the discontinuance of the "displaced persons" camps would save about 500 million D-marks annually.

Western Germany: Economic Statistics

	Industrial Production (Bizonia)	Hard Coal Output (Trizonia) (000 tons)	Elec. Output (Trizonia) (000,000 kwh)	Steel Output (Trizonia) (000 tons)	Cement Output (Trizonia) (000 tons)	Passenger Car Output (Bizonia)	Cotton Yarn (Trizonia) (000 tons)	Building Bricks (Trizonia) (millions)
1936	100	11,126	.....	1,046	793	17,220	.....	298
Monthly Averages								
1946	34	5,263	1,325	193	210	830	4	51
1947	40	6,919	1,508	193	210	770	6	60
1948								
Jan.	47	7,747	1,852	328	251	1,250	7	70
Feb.	48	7,445	1,729	334	290	1,400	8	54
Mar.	51	8,256	1,806	375	346	1,520	8	59
Apr.	54	8,114	1,734	402	389	1,710	9	76
May	48	6,925	1,596	404	396	1,670	8	100
June	52	8,589	1,559	427	422	2,070	8	129
July	62	9,028	1,587	514	501	2,650	9	204
Aug.	66	8,677	1,659	554(p)	559	2,150	10	244
Sept.	70	8,800(p)	1,830	589(p)	580(p)	3,500	12	278(p)

p)—preliminary

Occupation Costs vs. Relief

But suppose Germans are paying some 200-250 deutsche marks per head in occupation costs. They would have to pay much more for the foodstuffs and raw materials provided for them under the ERP Program, the Army Relief and various other assistance measures. As General Clay recently remarked, for each 20 marks that Germans pay for occupation, Americans pay 80 marks to feed the Germans. Without American assistance, inflationary pressures would have already wrecked the new currency. Besides, were it not for the presence of the Western Allies, Trizonia would by this time probably have been overrun by the Russians.

Under the circumstances, the most obvious way out for Western Germany is to increase production. There is skill, plant capacity, coal, and, in contrast with other Western European countries, a surplus of man power. At least ¾ of a million people are at present without jobs in Bizonia alone, and their number is increasing. Workers are being laid off because, with the price mechanism working again, plants are anxious to keep down their production costs.

But the Germans are not free to increase production. There are industries, the production of which can be expanded only with the consent of the occupation powers, and then only if their views can be reconciled. An example is the Ruhr problem and the question of plant dismantling.

As a part of their project to get Germany on her feet again, the Americans and the British have been anxious to reorganize the Ruhr as a workshop for Western Europe. They argued that in order to do this efficiently and quickly, it is desirable to let the Germans own and manage the Ruhr industries. There was no danger that the Germans could start making any war material as long as the Allies supervised the allocation of raw materials and the distribution of the products.

For security reasons, the French and some of the other Western European countries were against this solution. But, finally agreement was reached last December at the six-power conference in London. The Germans will run the Ruhr under the supervision of a six-power commission. An international committee was also organized to decide which of the 300 plants scheduled to be dismantled should be retained in Germany where they could operate more efficiently. It is rumored that the ECA committee which previously studied the problem recommended the retention of at least 150 plants.

Immense Recovery Problems

Germany is faced with economic problems of immense magnitude. It is compressed into a territory one-third smaller, and yet it must take care of some 10 to 12 million more people — more or less destitute refugees from Eastern Europe. It is a rump economy, unable to trade freely with those parts which are now under Russian and Polish administration. Neither can it trade freely with the countries of Eastern Europe with which it used to exchange industrial products for food and raw materials.

Unless this flow of goods can be restored, Western Germany will become dependent for food and raw materials on the Western Hemisphere, and will have to sell the bulk of her (*Please turn to page* 360)

Germany: Prices and Wages; Foreign Trade

	Cost of Living (British Zone)	Hourly Wage Rates (reichs-marks)	Unemployment (Trizonia) (000 workers)	Export Deliveries (000,000 dollars)	Import Arrivals (000,000 dollars)
1938	100	.79(a)	.....	.....	.....
1946	125	.90	865	4(b)	54(b)
1947	126	.95	653	19	57
1948					
Jan.	125	.96	492	27	50
Feb.	126		485	30	50
March	126		480	26	84
Apr.	128		477	.....	.....
May	130		456	.....	.....
June	134		473	.....	.....
July	138		701	.....	.....

(a)—All Germany
(b)—Monthly Average

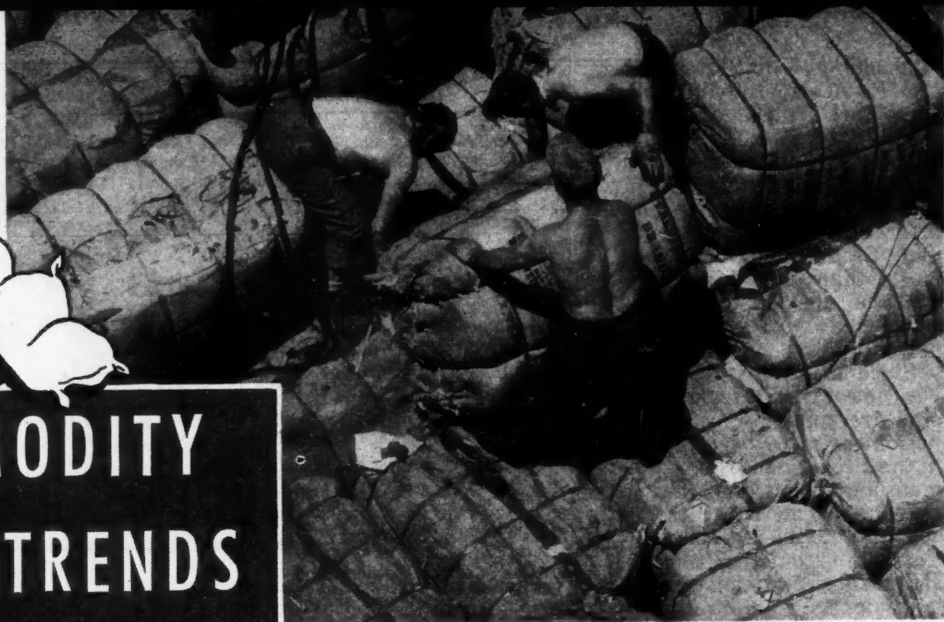


Photo by Devaney

COMMODITY PRICE TRENDS *for The First Quarter*

By FRANK R. WALTERS

Commodity price developments during the next few months are likely to be more spectacular than anything the business community has witnessed in many years. Barring the outbreak of war or a turn in international developments that results in boosting defense expenditures by many billions of dollars, the outlook is for further decline in commodity prices. At this stage, it is not so much a question of whether prices will decline but how rapidly they will decline and how general the decline will become.

During recent months, we have witnessed the somewhat amazing phenomenon of inflation scares, both in and outside government circles, at the very time that the commodity price level was moving downwards. Perhaps that should not be surprising. From August, 1939, through August, 1948 — a period of nine years — the commodity price level advanced steadily. As measured by the BLS Index of Wholesale Commodity Prices, the increase during this period was 126 percent. Although the greater part of this increase was recorded after the end of the war, that does not alter the fact that a whole generation of business men, politicians, and economists (both private and government) has grown up with little conscious recollection of prices moving other than upward. And even older heads tend to think of prices moving in only one direction, i.e., upwards, as a sort of habit pattern.

It is very difficult, under these circumstances, for many to appreciate that the post-World War II inflation apparently attained its peak in August of 1948 at 169.5 percent of the 1926 average. Since August, prices have declined steadily; by the end of last year, the BLS index was probably 5 to 6 per cent below the August peak.

Thus far, price drops have been primarily in "farm products' 'and "foods." Farm products prices made their peak in January, 1948; although they staged a substantial recovery following the February break and came close to equaling the January high in June, they now have been declining for six months and are close to 15 percent under the post-war peak recorded last January. Individual farm products, of course, have registered declines of much greater magnitude than 15 percent from their highs. Wholesale food prices made their post-war peak in August, and have eased approximately 10 percent since then. Bumper 1948 crops in the United States and lessened demand upon domestic supplies owing to better crops abroad have been contributing factors to the declines in prices of farm products and foods. But, larger supplies have not been the only factor. Consumer resistance has been important; butter prices have tumbled despite subnormal supplies while meat prices have been under great pressure since last summer notwithstanding smaller production than a year ago. Some commodities, such as cotton, have felt the effect of lessened mill demand.

Decline of Farm Product Prices

Those of us who are urban dwellers are inclined to accept lower prices for farm products and foods graciously, as a gift from the gods as it were, but many attach little significance to these declines. There are some, indeed, who look upon low food prices as inflationary for other commodities on the theory that lower food prices will enable people to buy more non-agricultural products.. The fact is almost completely overlooked that the declines in prices of farm products and foods have put a severe crimp in the farmers' purchasing power. Prices of farm products are lower than a year ago, while the farmers' cost of doing business is higher. The Department of Agriculture recently noted that, during November, the ratio of prices received by farmers to prices paid (for production and household use, including interest and taxes) dropped to 110 which was the lowest since

October, 1942. Despite larger field crops, total marketings are off from a year ago owing to reduced livestock numbers and marketings.

As a group, farmers fared extremely well during the war and since the end of the war until recently. Prices of farm products rose more than the general price level. The relative position of agriculture was demonstrated by the fact that the increase in retail trade since pre-war was much greater in agricultural areas than in industrial areas. Now, with money scarcer, farmers are spending less. Combined sales of the two big mail order houses during November fell below a year earlier for the first time since 1945. The sales ratio had been slipping earlier, but November was the first month to register a decline. Farm building is off, and farmers are buying fewer automobiles and less agricultural machinery.

No Unmitigated Blessing

The declines in food prices, admittedly a boon to the non-agricultural population, are not an unmitigated blessing. The cream is being skimmed off farm purchasing power and agriculture and industry are inter-dependent to a high degree.

Thus far, as noted previously, price declines have occurred primarily in farm products and foods. The BLS sub-index of "commodities other than farm products and foods" has registered practically no change since August, indeed, it has moved up a trifle; while prices of soft goods have declined, prices of durable goods have continued to move upward as an offset though latterly the price structure is wavering in some directions. Prices of a number of farm products, grains, cotton, soybeans, potatoes, tobacco, and other field crops, now are resting at about government support levels (90 percent of parity for most crops; 92½ percent for cotton), and further sharp declines are unlikely unless commodity prices collapse entirely on a broad front. However, farm products as a group still can decline moderately within the framework of government support program; on November 15, hogs stood at 121 percent of parity and beef cattle at 160 percent.

Contracting Demand Speeds Price Decline

Historically, once "the bloom was off the rose" of inflation as a result of declines in prices of farm products and foods, the real decline in the commodity price structure began when demand schedules contracted sharply. We now are four months away from the price peak in August. At comparable times in 1920, 1929, and 1937, there were few indications that major declines in commodity prices owing to a collapse of demand were in the making. Business was slowing down but not enough to cause any great concern. Farm products prices were off, but prices of metals and most manufactured goods were firm. Spending money was becoming scarcer. Interest rates were going up. Mortgage money was scarcer. Consumer resistance was mounting. The outlook was less certain than a year earlier, but it wasn't bad. Business might slow down a little more, it was admitted, but prices couldn't decline much because of high wages or the great need of Europe for goods or the large Federal deficit, or for some equally good reason. There was always a supposedly "good reason."

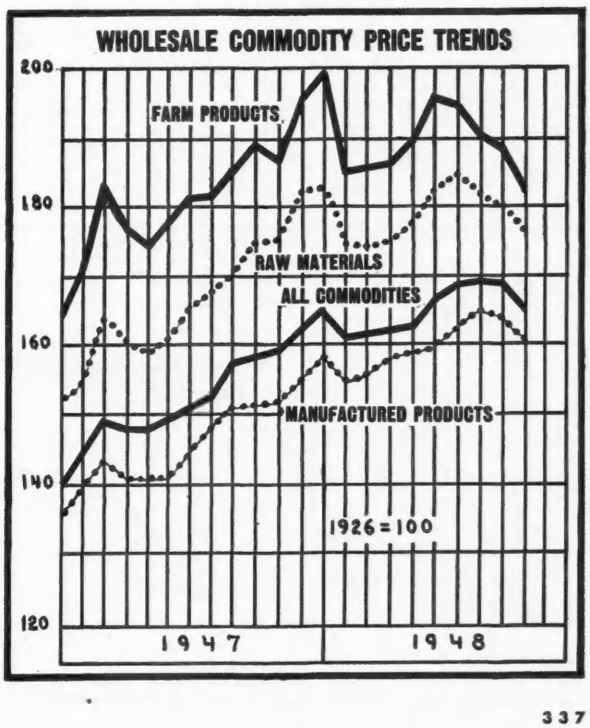
And, even when demand schedules began to contract, there always were reasons advanced to explain why this was only temporary. The autumns of 1920, 1929, and 1937 were characterized by the failure of business to register as much improvement as usual from the summer slumps. So was the autumn of 1948. There is one essential and significant difference this year. In 1920, 1929, and 1937, department store Christmas business was good; November and December sales about equaled a year earlier or were off only very slightly. But in 1948 it was different.

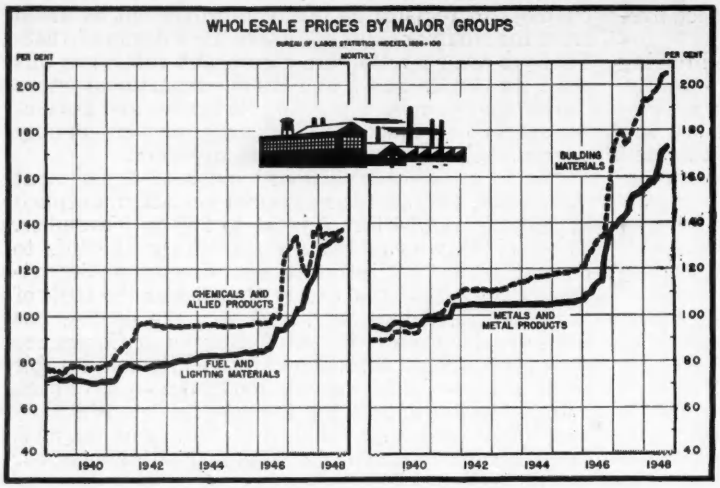
The Federal Reserve Board index of department store sales, adjusted for seasonal variation, declined steadily from 316 last August to 288 in November. Those of us who looked for something like this to happen are not inclined to take seriously the department store executives' excuse that it was the fault of the weather. Admittedly, however, the decline has been greater than anticipated. Bureau of Commerce data for all retail sales show that, while non-durable goods sales — which include food sales — have been relatively constant during the past few months, durable goods sales have declined sharply from the peak last August; this, of course, is after adjustment for seasonal variation.

Another Phase of Commodity Price Deflation

Quite clearly, we have entered another phase of the commodity price deflation. The end of price strength and the appearance of price easiness a few months back checked the willingness to accumulate materials and goods for inventory. Despite an admitted housing shortage, construction has been declining since last Spring since costs moved too high for either rental or sale. The business boom has been kept going, at almost a fabulously high price level, by inventory accumulations, capital expansion, drafts upon consumers' wartime savings, and expansion of consumer credit. Where the boom might have ended earlier, it has been extened by ECA and a moderate increase in defense expenditures.

Many consumers have been demonstrating forcibly by their reduced expenditures that they have come to

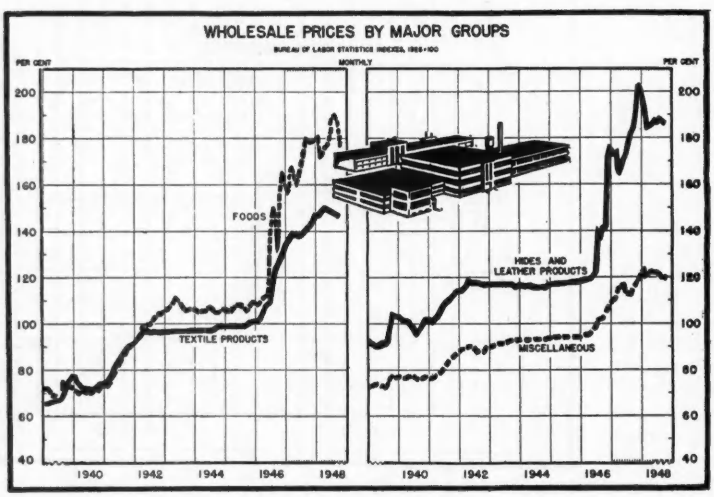




the end of their ropes. The interesting point, and it may be ominous, is that department store sales have contracted much more rapidly than during previous comparable periods. Furthermore, durable goods sales seem to have declined at an unusually early phase of the cycle.

The contraction in net farm income and the increased unemployment reported during November and December suggests rather clearly that national income has been declining since the post-war peak attained in October. To a large extent, the high national income has been the effect and not the cause of high levels of production and prices, but it is a convenient measure and changes in it have considerable psychological effect.

Retailers, encouraged by their earler gains in sales over a year earlier, were extremely optimistic over the outlook for Christmas trade, on which they depend so much, and had laid in inventories to meet a larger business than in 1947. Even before Christmas, considerable retail price softness developed but much of this was in areas such as men's apparel and consumers' durables where some softness had been noted as long ago as last Summer. Large retail inventories looked all right a few months back when business was booming, but, now that business has contracted sharply, they look pretty large.



The early part of 1948 undoubtedly will be characterized by widespread retail price reductions and attempts by retailers to liquidate excessive inventories. The liquidation of inventories is the third stage in price deflation, and probably is the most important because it is the stage at which the downward spiral is most likely to be touched off. Once inventory liquidation begins at the retail level, it soon affects wholesalers and manufacturers. They, too, attempt to liquidate inventories before the bottom falls out of the market. While inventories are being liquidated, manufacturing is curtailed. With demand reduced, materials prices decline and the spiral gets another push downward.

Sometimes this process has been very slow and sometimes it has been very rapid. The general view among business men is that any inventory liquidation will proceed slowly but there are signs — such as the unusually sharp contraction in department store sales from August forward and the contraction in durable goods sales at an early stage of the cycle — that liquidation may be much more rapid than generally anticipated. Reductions in some instances of 20 to 30 percent already have been made to move men's apparel and consumers' durable goods, and it well may be that retailers will resort to sharp price cutting rather generally. The level of department store sales in comparison with a year earlier as reported weekly during January, and the extent to which prices are reduced, will tell pretty well how extensive the inventory liquidation will be.

Snow-balling Effect of Lower Retail Prices

Once prices are reduced at the retail level, it is well nigh impossible to put them back up again particularly during a period when employment and income are levelling off. Retailers already are pressing manufacturers to produce goods at prices that consumers will readily accept. Some manufacturers will reduce prices in order to keep going, while others prefer to curtail or shut down. In either case, the tendency is to decrease wages or employment, with resultant diminished purchasing power and an intensified downward spiral. New orders certainly will be smaller early in 1949, and it is obvious that something must give. Towards the end of 1948, pressure on a number of industrial raw materials was increasing, reflecting the squeeze on manufacturers.

Consumers have been and still are paying an abnormally high percentage of their incomes for food. The combined consumers' price index for October was 173.6 (average 1935-39 = 100); the food price index was 211.5 and the apparel index 201.6. Wool and cotton, apparel raw materials, are farm products. Parity may decline further and farm products prices still can decline moderately as a group within the framework of government price supports, but, even after such declines, food and fiber prices would remain high.

This winter, meat and meat animal prices are likely (*Please turn to page* 359)

Small Companies

—with Good Earnings Ahead

SELECTED BY OUR STAFF

Many investors are prone to limit their search for concerns with strong growth potentials to giant companies that have already established an outstanding record in this respect. Through this reasoning, however, it is easy to overlook many enterprises of smaller size with equal, if not sounder, prospects of forging ahead. In recognition of this fact we have selected four concerns of moderate stature but with dynamic managements, sound finances, good earnings records and with a seemingly bright horizon. We present on following pages statistical evidence and condensed comments bearing on each of our selections.

For the particular scope of our study we have limited our choice to four manufacturers of durables, all supplying various kinds of capital goods, parts or essential equipment to a broad list of industries. These specialists in their respective fields have become strongly entrenched and as the economy expands are apt to establish marked growth characteristics. The proven merit of their products to some extent offsets the hazards of competition and fortifies their earnings potentials. In time this could find reflection in price appreciation for their shares.

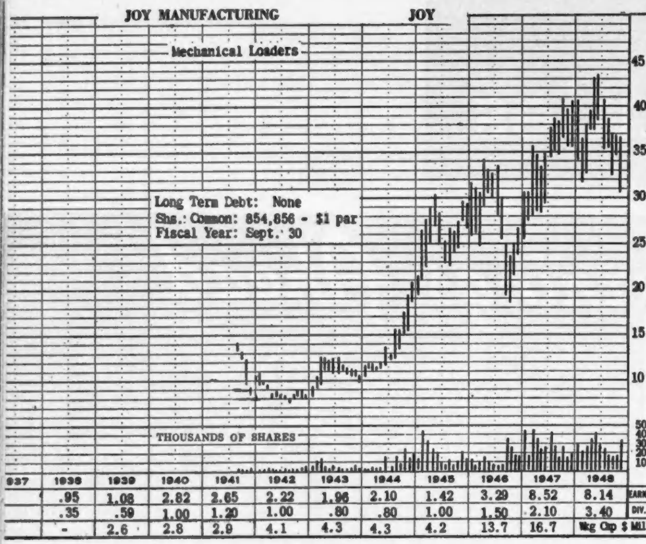
The market outlook for producers of mining equipment seems especially promising. With coal miners now receiving wages higher than any other workers, the demand for the most up-to-date cost-saving machinery has soared. This is true not only at home but abroad, where substitution of new for obsolete mining equipment is essential for the recovery of practically every economy. Non-ferrous mining companies, also, are struggling hard to overcome a serious supply deficiency, and from low cost producers to marginal concerns see their way out of the dilemma only by acquiring the most efficient equipment. The product range of Joy Manufacturing Company, one of our selections, offers an answer to many of these problems and the company is likely to experience record sales for a long time to come.

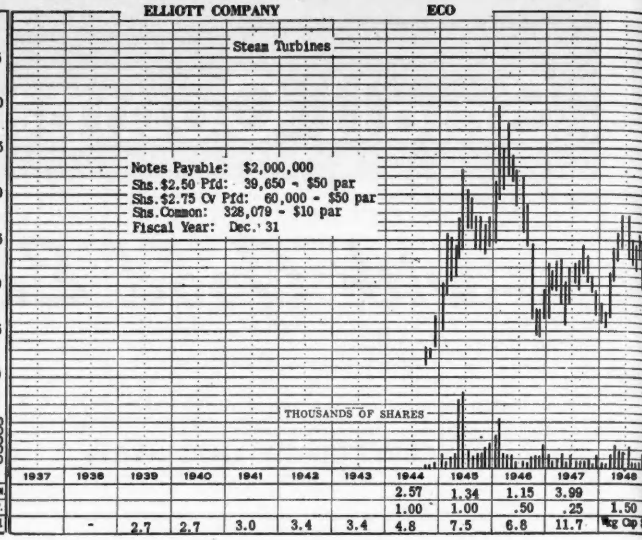
Dependence of numerous industries upon an adequate supply of special steel drums, barrels, tanks and drums has created an insistent demand for these products, likely to continue for an indefinite period ahead. Deliveries of chemicals, beverages, paints, soaps, petroleum products, as well as many other items, hinge upon prompt receipt of containers, most of which have to meet rigid specifications. In recent years Rheem Manufacturing Company has pushed to the fore impressively as a leading source of supply for these specialties, with marked benefit to its sales and earnings. Additionally, a vigorous management has strengthened the company's potentials by branching out with several unrelated items. The company's record, shown in our thumbnail presentation, invites confidence in its shares.

Manufacturers of automotive equipment, plumbing and heating products, refrigeration and air-conditioning apparatus, rank among industries now exceptionally active and with every indication of well maintained business. A prime essential of all these groups is the availability of copper and brass forgings, castings, tubing and the like in substantial quantities and of approved quality. Reliable suppliers of these materials, currently still scarce, are doing a record business and piling up backlog orders as a rule. Mueller Brass Company, a Michigan concern with an excellent record but of relatively moderate size, is making the most of a fine opportunity to expand volume and net earnings under current conditions, and represents our third selection.

Stake in Gas-Turbine Field

For our final choice we have picked Elliott Company, a concern that during a fifty years' history has won outstanding repute in a highly specialized field. As a manufacturer of steam turbines, electric generators, motors and superchargers for diesel engines, along with other technical equipment, this concern caters to markets capable of indefinite expansion. Important client industries include producers of utility, locomotive and marine equipment. Attesting to Elliott's firmly established reputation is the fact that both during and since the war the Government has been its biggest customer.





JOY MANUFACTURING COMPANY

BUSINESS: Company is a leading producer of mechanical loaders, secondary haulage equipment, drilling, cutting and other machinery used mainly in underground coal mines. It is also the only producer of a complete line of trackless mining equipment in this field. Replacement parts and repairs are an important source of business.

OUTLOOK: By mergers and expansion, Joy Manufacturing Company has been building up an excellent record of achievement. Successive sales peaks have been made during each of the last three years, although for the fiscal year ended September 30, 1948, earnings dipped moderately to $8.14 per share from $8.52 the previous fiscal year, owing to a greater number of shares outstanding. Company is continually introducing new equipment, the latest being a revolutionary continuous mining machine which replaces the present cyclical mining sequence with one complete operation, thereby eliminating blasting, increasing safety, and reducing mining costs. Company has already received substantial orders for this machine. Since the mechanization of mining is relatively new, it presents promising growth prospects. The needs for replacement and expansion are substantial and pressing, indicating good earnings for the next few years. Company has cleared up all its loans and preferred stock, capitalization consisting of only 864,856 shares of common stock. Lately, a self-liquidating credit not exceeding $10,000,000 has been arranged.

DIVIDEND ACTION: Conservative disbursements in the past have been supplanted by increased rates plus extras. Current rate is 80 cents quarterly, increased from 60 cents. Payments in 1948 amounted to $3.40. At present price, the stock yields better than 9%.

MARKET ACTION: In line with the nature of the industry, the stock has fluctuated widely but performance in recent years has been better than average with successive new highs made annually since 1946. Recent price of 35 compares with 1948's range of 43¼ high — 30⅝ low.

COMPARATIVE BALANCE SHEET ITEMS

	Sept. 30 1940	June 30 1948 (000 omitted)	Change
ASSETS			
Cash	$ 200	$ 2,406	+$ 2,206
Receivables, net	1,799	11,193	+ 9,394
Inventories	1,630	19,431	+ 17,801
TOTAL CURRENT ASSETS	3,629	33,030	+ 29,401
Plant and Equipment	653	11,236	+ 10,583
Less Depreciation	261	6,885	+ 6,624
Net Property	392	4,351	+ 3,959
Other Assets	147	2,113	+ 1,966
TOTAL ASSETS	$4,168	$39,494	+$35,326
LIABILITIES			
Notes Payable	$ 104	....	— 104
Accounts Payable	250	3,565	+ 3,315
Reserve for Taxes	....	4,265	+ 4,265
Other Current Liabilities	431	1,824	+ 1,493
TOTAL CURRENT LIABILITIES	785	9,754	+ 8,969
Short Term Debt	477	....	— 477
Other Liabilities	....	267	+ 267
Reserves	....	425	+ 425
Capital	384	858	+ 474
Surplus	2,521	28,190	+ 25,669
TOTAL LIABILITIES	$4,168	$39,494	+$35,326
WORKING CAPITAL	$2,844	$23,276	+$20,432
CURRENT RATIO	4.6	3.4	— 1.2

ELLIOTT COMPANY

BUSINESS: This is a relatively small but well-established maker of equipment used principally in the production of power in stationary installations, and for locomotive and marine use. It is also a pioneer in the gas turbine field, a growth industry that is likely to become big business in the future. Additionally, important engineering activities are conducted.

OUTLOOK: Formed in 1901, this company has been steadily forging ahead in its own methodical manner. Industrial ups and downs have been taken in stride, with earnings reaching the best levels in the last dozen years. $3.99 per share was reported in 1947, compared with $1.15 the previous year and $3.40 during the best war year. Aided by expanded facilities and improved operating conditions, earnings for the first nine months of 1948 were 38 per cent better than for the corresponding period the previous year: $5.15 vs. $2.76 per share. Full year earnings should top $7 per share, with further gains indicated in 1949. Although overhead costs are comparatively heavy and inflexible, profits tend to soar once the break-even point is passed. Company should share for several years to come the high level of activity in the heavy industries, further assisted by government equipment needs. Its leading position in the development of the gas turbine and improved product designs further enhance long term prospects. There are only 353,955 shares of common stock outstanding, preceded by two classes of preferred bank loans.

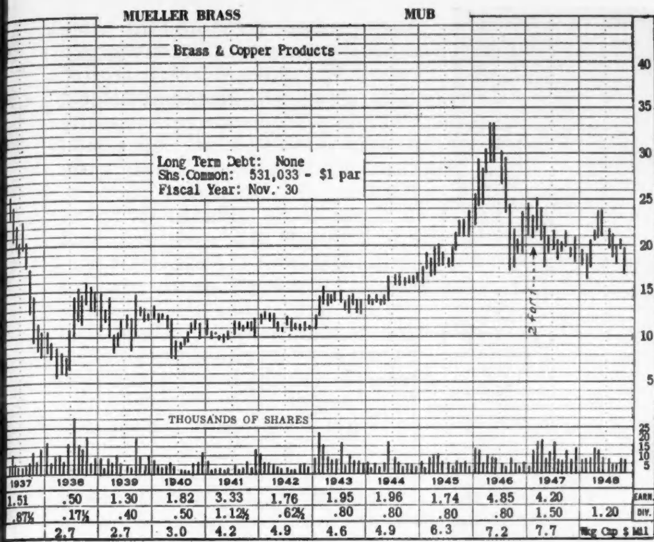
DIVIDEND ACTION: Capital needs for expansion have kept dividend payments somewhat conservative but recent disbursements have been more liberal, a year-end extra of 50 cents having been added to the usual 25 cent quarterly payment. At present price, stock yields 7.5%.

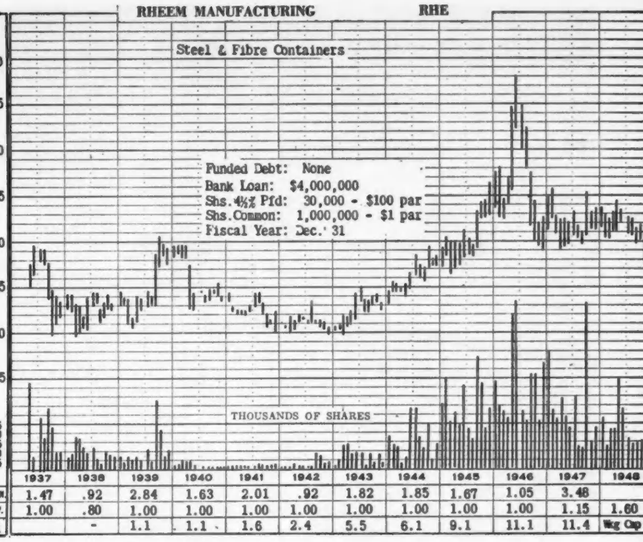
MARKET ACTION: Leverage provided by preferred stocks has made stock volatile but development of new products and substantial earning power may provide a moderating influence. At recent price of 20, stock is better than half-way between the 1948 range of 27⅞ high — 15½ low.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31 1940	March 31 1948 (000 omitted)	Change
ASSETS			
Cash	$ 712	$ 2,515	+$ 1,803
Marketable Securities	....	1,000	+ 1,000
Receivables, net	1,227	4,851	+ 3,624
Inventories	2,157	6,492	+ 4,335
Other Current Assets	....	709	+ 709
TOTAL CURRENT ASSETS	4,096	15,577	+ 11,481
Plant and Equipment	3,106	Not Reported	....
Less Depreciation	1,353	Not Reported	....
Net Property	1,753	4,970	+ 3,217
Other Assets	328	186	— 142
TOTAL ASSETS	$6,177	$20,733	+$14,556
LIABILITIES			
Notes Payable	....	$ 1,000	+$ 1,000
Accounts Payable & Accruals	782	1,694	+ 912
Reserve for Taxes	....	1,300	+ 1,300
Other Current Liabilities	570	66	— 504
TOTAL CURRENT LIABILITIES	1,352	4,060	+ 2,708
Long Term Debt	....	2,000	+ 2,000
Capital	2,909	9,411(a)	+ 6,502
Surplus	1,916	5,262	+ 3,346
TOTAL LIABILITIES	$6,177	$20,733	+$14,556
WORKING CAPITAL	$2,744	$11,517	+$ 8,773
CURRENT RATIO	3.0	3.8	+ .8

(a)—includes capital surplus





MUELLER BRASS COMPANY

BUSINESS: Although relatively small, the company enjoys a strong competitive position as a copper and brass fabricator with most of its varied output consisting of wholly-fabricated products. These go mainly to the plumbing and heating, refrigeration and air-conditioning, and automotive industries.

OUTLOOK: Marking many years of steady progress, the company has chalked up a record which for stabiilty of earnings is better than most companies in the fabricating industry. This culminated in earnings of $4.20 per share in 1947, almost doubling the previous year's results. During the first half of 1948 margins contracted somewhat but subsequent price advances brought improvement, with the result that earnings for the first nine months dropped only moderately to $3.19 per share from $3.24 for the corresponding period the previous year. Full year earnings should come close to the 1947 mark. With operations well diversified and with client industries enjoying a high degree of activity, the outlook for the foreseeable future appears bright. Any let-down in consumer durable goods demand should be largely offset by increased expenditures both for armament and ECA operations. Over the longer term, the increasing popularity of copper tubing in building lends encouragement to the company's growth, particularly when the present acute copper supply situation is alleviated. Company has no bonds or preferred stocks outstanding, its sole capitalization consisting of 531,033 shares of common stock.

DIVIDEND ACTION: Dividends have generally been conservative. Current rate of 30 cents quarterly is amply protected and may be supplemented by an occasional extra. In 1948 $1.20 was paid. At present price, stock yields better than 7%.

MARKET ACTION: Stock has been less volatile than others in this group and will largely be affected by changes in copper prices. At recent price of 16½ it is selling close to the 1948 low of 16. High for the year was 24.

COMPARATIVE BALANCE SHEET ITEMS

	November 30 1940	1947 (000 omitted)	Change
ASSETS			
Cash	$ 414	$ 2,780	+$ 2,366
Receivables, net	1,238	1,669	+ 431
Inventories	2,645	7,230	+ 4,585
Other Current Assets	....	17	+ 17
TOTAL CURRENT ASSETS	4,297	11,696	+ 7,399
Plant and Equipment	5,125	8,125	+ 3,000
Less Depreciation	2,650	3,882	+ 1,232
Net Property	2,475	4,243	+ 1,768
Other Assets	157	796	+ 639
TOTAL ASSETS	$6,929	$16,735	+$ 9,806
LIABILITIES			
Notes Payable	$ 200	....	— 200
Accounts Payable	408	702	+ 294
Reserve for Taxes	263	2,143	+ 1,880
Other Current Liabilities	383	1,082	+ 699
TOTAL CURRENT LIABILITIES	1,254	3,927	+ 2,673
Reserves	45	725	+ 680
Capital	266	531	+ 265
Surplus	5,364	11,552	+ 6,188
TOTAL LIABILITIES	$6,929	$16,735	+$ 9,806
WORKING CAPITAL	$3,043	$ 7,769	+$ 4,726
CURRENT RATIO	3.4	3.0	— .4

RHEEM MANUFACTURING COMPANY

BUSINESS: Company produces electrically welded drums, metal containers, and a diversified line of automatic water heaters. Steel containers are the most important, followed by household appliances. Important consumers are the petroleum, chemical, food, beverage, and building industries. Foreign business is substantial.

OUTLOOK: With about a six-fold increase in both sales and earnings from pre-war years to 1947, the company has demonstrated earning power that augurs well for the future. Although postwar sales have not been as large as those during the war, net has soared to new heights, resulting in per share earnings of $3.48 for 1947, which compares with $1.82 during the best war year and $2.84 during the best pre-war year. For the first nine months of 1948, sales dipped slightly from the corresponding period, reflecting materials shortages and cautious buying on the part of customers. However, with the demand for steel containers continuing large and with an aggressive promotional campaign to push the appliances line, full 1948 earnings are not expected to fall much below the $3.48 reported in 1947. Subsequent years should see earnings well maintained, further aided by a basic upward trend as a result of the addition of new lines and the extension of old ones. Although competition is tending to stiffen, profit margins in this field are steady. Company's finances are sound. Of the one million shares outstanding, 30 per cent are owned by Bethlehem Steel.

DIVIDEND ACTION: Company has paid fairly liberal dividends in recent years. The current rate of 40 cents quarterly appears secure and should be maintained. At current price, the stock yields 8.9%.

MARKET ACTION: In general, the stock has followed the general market trend but improvement in the company's position holds prospects of above average performance in the future. Recent price of 18 compares with a 1948 range of 24½ high — 17⅛ low.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1940	1947 (000 omitted)	Change
ASSETS			
Cash	$ 573	$ 2,277	+$ 1,704
Marketable Securities	14	153	+ 139
Receivables, net	854	5,253	+ 4,399
Inventories	1,916	9,405	+ 7,489
Other Current Assets	....	50	+ 50
TOTAL CURRENT ASSETS	3,357	17,138	+ 13,781
Plant and Equipment	3,438	14,965	+ 11,527
Less Depreciation	1,035	3,881	+ 2,846
Net Property	2,403	11,084	+ 8,681
Other Assets	786	1,606	+ 820
TOTAL ASSETS	$6,546	$29,828	+$23,282
LIABILITIES			
Notes Payable	$ 800	....	—$ 800
Accounts Payable	1,092	3,021	+ 1,929
Reserve for Taxes	262	2,422	+ 2,160
Other Current Liabilities	122	571	+ 449
TOTAL CURRENT LIABILITIES	2,276	6,014	+ 3,738
Short Term Debt	226	....	— 226
Long Term Debt	1,480	4,000	+ 2,520
Capital	315	3,841	+ 3,526
Surplus	2,249	15,973	+ 13,724
TOTAL LIABILITIES	$6,546	$29,828	+$23,282
WORKING CAPITAL	$1,081	$11,124	+$10,043
CURRENT RATIO	1.5	2.8	+ 1.3

Investment Audit of NATIONAL BISCUIT

By H. S. COFFIN

A half century of uninterrupted success has won a high spot for National Biscuit Company on the roster of the nation's outstanding enterprises. In recognition of the well assured stable income provided by Nabisco shares, over 60,000 investors including many conservative institutions have included the common stock in their portfolios. But despite an exceptional dividend record and consistent volume gains with the passage of time, the company's earnings have established a moderate downtrend from the middle of 1930s until a few years ago. Improvement in this respect has been notable in postwar, and still promises to continue, hence an analysis of the factors entering future profit outlook should be of interest.

Because of the nutritional value and low cost of crackers and cookies, not to mention their dual utility in every household for table items and as between-meal snacks, consumer demand is substantial year in and year out. Dollar sales of course are sensitive to change in the level of national income but this is less true of unit volume. Since during recessive periods, prices for ingredients, such as wheat, flour, sugar, molasses and shortening tend to decline fast, while the relatively low prices for the finished products help to cushion a similar drop, it has proved possible for able managements to offset inventory losses by wider profit margins. Net earnings of National Biscuit Company, for example, at the depths of the Great Depression were actually more ample than for several years following.

These basic advantages in the cracker industry, and its almost unlimited market potentials provided by variations in product output, naturally attracted widespread competition. About 165 concerns throughout the country now vie for the housewives' dollars. Back in 1898, Nabisco got a strong head start by the merger of three established manufacturers and has managed to retain an easily dominant position ever since. This giant concern, along with Sunshine Biscuits, Carr-Consolidated and United Biscuit, now accounts for more than 80% of industry volume, and Nabisco's share has averaged about 58% for many years past, at times pushing up to 60%.

National Biscuit has gained and held such an enviable position through long continued and skillful promotional activities that have thoroughly entrenched its products in popular favor. The Nabisco trademark has won such countrywide recognition that sales in practically all of the 400,000 food stores in the country have become rather automatic. The biscuit division, offering items such as Uneeda, Social Tea biscuits, Fig Newtons and Ritz crackers, is the largest revenue producer, but among the company's product range of 265 items, including Shredded Wheat and bread, are numerous specialties with wider profit margins. In distributing more than one hundred billion crackers and biscuits annually, the main effort of the Nabisco salesmen is to keep shelves adequately filled and to arrange displays so that the more profitable items may attract shoppers.

Strong Integration

From an operational angle, National Biscuit has strongly fortified itself by integration. Plants strategically located in 30 domestic centers and five in Canada are supplied with 80% of their flour requirements from the company's own mills, and with all of their containers and their molasses blends. 96% of total output is delivered by a huge fleet of Nabisco trucks. In Toledo, Ohio, a vast flour mill with an elevator capacity of 6.4 million bushels enables Nabisco to load up with grain far above immediate requirements during seasons when prices are apt to be most favorable. Additional mills and wheat storage facilities in the states of Missouri and Washington bolster supply sources of flour, although regardless of all these ample facilities Nabisco spends about $37 million annually now for flour from outside sources because of trade reasons.

To facilitate company sales, National Biscuit maintains 250 branch offices, employing a highly trained force, and to effect purchases of more than $100 million of raw materials annually, the home office has an elaborate and most efficient purchasing division. Finally, the company places great emphasis upon continuous research in the development of new items and to detect shifts in demand for its numerous products in various areas, and spends about $5 million annually for promotional activities.

Factor of Competition

It might be thought that with such a long established reputation and with such well integrated operation, it is small wonder that National Biscuit has been able to maintain a high degree of domination in its special field. Still the matter of competition should not be minimized though few competitors in the industry have had the resources to achieve expansion and integration comparable to that of Nabisco during decades when population and disposable income were steadily rising. It is significant, also, that this large enterprise, now with total assets of more than $154 million, has been able to finance its entire fifty years' growth without recourse either to borrowing or to the sale of additional stock. But to hold and expand its markets, the element of pricing policies has always been, and will continue to be a major factor. Competing products of similar appearance and appealing design, especially if under-priced, constitute an endless threat to the supremacy of Nabisco products despite the latter's popularity. A variation of a few pennies in price, even among the company's own products, affects sales surprisingly one way or the other.

While National Biscuit's annual volume, now running well over $250 million, has invariably made it rather simple to meet price competition whenever deemed wise, and without serious detriment to overall earnings, this process for some years past seemingly has held profit margins below former levels despite substantial volume gains. Also thus far in postwar, Nabisco has tried to meet the steady rise in wage and materials costs by lifting the average prices of its main revenue producers about 57% in contrast to a jump of about 100% in most food prices. But this has only partially solved the problem.

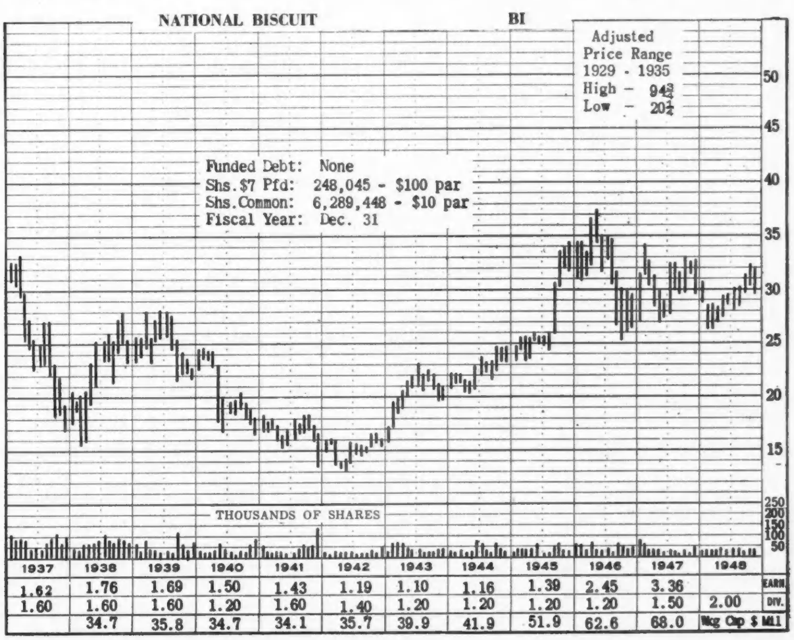
To clarify the picture, it is interesting to study the growth trend of Nabisco's sales and its earnings experience over a period of years. For five years prior to Pearl Harbor, gross sales held within a range of approximately $96 to $103 million and net earnings varied little from an annual average of around $11 million or about $1.53 per share.

In other words the ratio of net income to sales was about 11%, although nearer 12% at the beginning of the period when sales were lower and nearer 10% at the end when volume reached $103 million. During war years, annual gross sales rose steadily to a peak of $223 million in 1944, but between tight Government pricing and excess profits taxes net income never exceeded $10.5 million and in 1943 was as low as $8.7 million, hence reducing the relationship of net to volume to an abnormal level of around 4% in the largest volume year of this period, 1944.

Since then Nabisco has reported only net sales, but on this basis net earnings of $10.5 million represented 5.1% on a volume of $204.9 million in 1945. In the following years, when sales soared to $220 million in 1946 and then to $263 million in 1947, relief from EPT and price controls lifted earnings to $17.2 million and $22.9 million respectively, or

Comparative Balance Sheet Items

	1940	1947	Change
	(000 omitted)		
ASSETS			
Cash	$ 32,311	$ 11,737	$—20,574
Marketable Securities	1,307	35,147	+33,840
Receivables, net	2,920	6,830	+ 3,910
Inventories	9,214	43,082	+33,868
TOTAL CURRENT ASSETS	45,752	96,796	+51,044
Plant and Equipment, net	81,862	54,938	—26,924
Other Assets	1,104	2,579	+ 1,475
TOTAL ASSETS	$128,718	$154,313	$+25,595
LIABILITIES			
Accounts Payable & Accrued	$ 2,171	$ 6,842	$+ 4,671
Reserve for Taxes	6,428	16,926	+10,498
Other Current Liabilities	2,516	5,031	+ 2,515
TOTAL CURRENT LIABILITIES	11,115	28,799	+17,684
Reserves	7,740	14,663	+ 6,923
Preferred Stock	24,804	24,804	......
Common Stock	62,894	62,894	......
Surplus	22,164	23,151	+ 987
TOTAL LIABILITIES	$128,718	$154,313	$+25,595
WORKING CAPITAL	$ 34,637	$ 67,997	$+33,360
CURRENT RATIO	4.1	3.4	— .7



1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	
1.62	1.76	1.69	1.50	1.43	1.19	1.10	1.16	1.39	2.45	3.36		EARN.
1.60	1.60	1.60	1.20	1.60	1.40	1.20	1.20	1.20	1.20	1.50	2.00	DIV.
	34.7	35.8	34.7	34.1	35.7	39.9	41.9	51.9	62.6	68.0	Wkg Cap $ Mil	

on a per share basis of $2.45 and $3.37. Encouraging as these latter results were, the net income ratios were only 7.7% and 8.5% respectively for the two years or considerably less than prewar figures. At that, allowance must be made for substantial non-recurring inventory profits that helped to swell the company's profits during 1946-47. Elimination of these would have changed the picture further.

Recent Trends

Although National Biscuit has now closed its 1948 year, full details of its operations and balance sheet must await publication of its annual report. Those of 1947, and for the first nine months of 1948, however, disclose many clues to the company's problems, evidence of its strong financial status, as well as plans of the management to improve its operating potentials. On appended tables we present balance sheet items for both 1947 and 1940 to illustrate important changes that have occurred, along with the company's long term operating and earnings record over the past ten years, and for the first nine months of 1948.

Study of these statistical tables shows at a glance the impressive volume gains by Nabisco in the last decade, but in analyzing these it should be realized that the company has been manufacturing at virtual capacity for several years of late and that advanced prices rather than increased production have been importantly responsible for the growth in sales figures. In like manner the figures bring out clearly that while the company has been able to keep its operating margins on an exceptionally even keel around 15% since 1942, in four previous years they were equally stable at slightly above 20%.

For the first nine months of 1948, the operating margin is not yet available, but though a reported volume of $217 million reveals a gain of about 9% over the corresponding period in 1947, net earnings of $15.1 million reduced the net margin to 6.9% compared with 8.7% for full 1947. This would indicate that operating margins have reversed their slight uptrend of last year, probably pruned by heavy manufacturing expenses and outlays for selling. The general drop in commodity prices this year also has probably impinged upon the margin through inventory losses, and at best has precluded an opportunity for gains such as were achieved a year earlier.

In examining inventory problems, it is well to scan the 1947 balance sheet. At the end of last year inventories of $43 million contrasted with $9.2 million in 1940, nearly doubling the ratio to relative sales volumes. At a percentage of about 16%, however, this would indicate a 1947 turnover every sixty days, and since the company has set up an ample inventory reserve of $5 million, its position is very comfortable.

Composition of inventories varies greatly in the course of a year and is distributed over many items. Of total annual purchases of $117 million, wheat and flour represent the largest amounts, but fats and oils account for around 23%, packaging supplies 22%, sugar, syrups and chocolate approximately 10% and a long list of other ingredients about 15%. Prices for most of these items are often very volatile, tending to create inventory profits or losses as the case may be.

Fixed Assets

As to physical assets, it is significant that net value of plants and equipment shrank from $81.8 million in 1940 to $54.9 million in 1947. Considering that the company spent about $11 million for replacements and additions in the two years following the end of the war, these figures point to conservative depreciation and accounting policies, although Nabisco has also disposed of some obsolete plants and equipment.

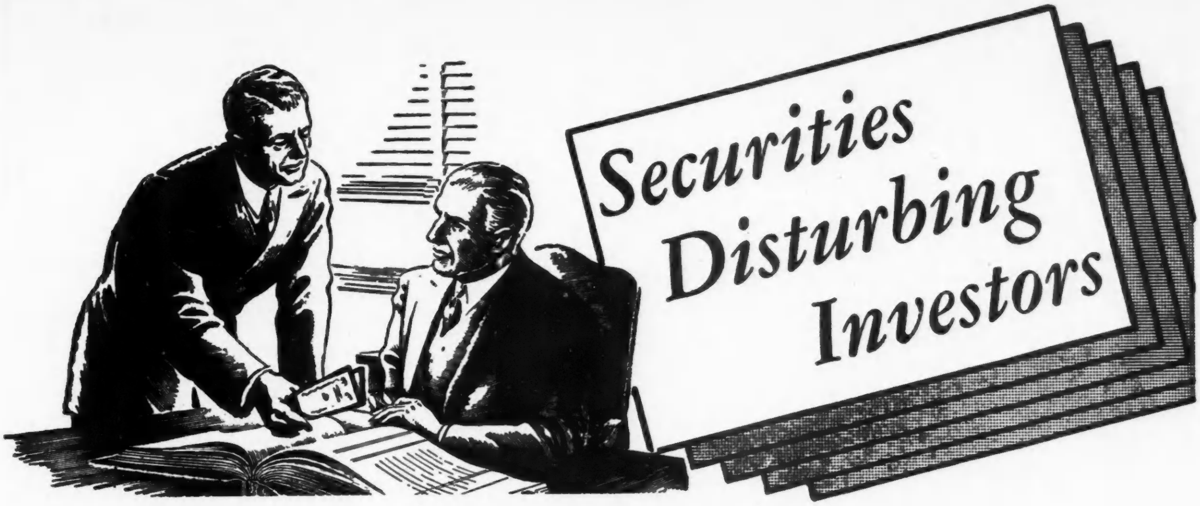
Despite a net decline of $26 million in physical assets, total assets rose by $25.5 million in the 1940-47 period, accounted for chiefly by a net gain of $13 million in cash and securities, $33 million in inventories and nearly $4 million in receivables. Since the company is not a borrower, this improvement reflects mainly the retention of earnings in the business plus accumulations from depreciation accounts. Total current (*Please turn to page* 358)

Long Term Operating and Earnings Record

	Net Sales —$ million—	Operating Income	Operating Margin —%—	Depreciation —$ million—	Net Income	Net Profit Margin —%—	Net Per Share	Dividends Per Share	Price Range 1948
1948 (9 mos.)	$217.5	—	—	—	$15.1	6.9%	$2.19	$2.00A	$32½-26⅛
1947	263.9	$41.5	15.7%	$3.8	22.9	8.7	3.37	1.50	34¼-27
1946	220.2	32.3	14.7	3.6	17.2	7.8	2.45	1.20	37⅜-25⅛
1945	205.0	32.4	15.8	3.5	10.5	5.1	1.39	1.20	34½-23¼
1944	223.6a	32.5	15.8	3.3	9.0	4.4	1.16	1.20	24¾-20⅜
1943	199.1	27.9	13.6	3.3	8.7	4.3	1.10	1.20	23 -15¾
1942	167.8	27.5	15.8	3.3	9.2	5.5	1.19	1.30	16½-13
1941	119.6	22.3	20.3	3.2	10.3	8.6	1.37	1.60	18¼-13¼
1940	103.7	19.3	20.3	3.2	10.7	10.4	1.43	1.60	24½-16¼
1939	98.1	18.7	20.7	3.1	11.9	12.2	1.62	1.60	28¼-21⅝
1938	97.5	18.5	20.5	2.9	12.0	12.4	1.64	1.60	28 -15½
10 Year Average 1938-47	$169.8	$27.3	17.3%	$3.3	$12.2	7.9%	$1.67	$1.40	$37⅜-13
4 Year Average 1938-41	$104.7	$19.7	20.4%	$3.1	$11.2	10.8%	$1.51	$1.60	$28¼-13¼

A—Total dividends paid for full year.

a—Gross sales in this and prior years



WESTERN UNION — REMINGTON RAND — REXALL DRUG

By GEORGE W. MATHIS

"Comes the revolution" — a bit of modern slang — epitomizes a great social change that has posed serious problems for many corporate managements.

Spread of the labor union movement in the last decade, accompanied by a sharply rising wage trend, has presented hazards for all industry. The impact of higher costs has proved especially severe for so-called service industries whose labor relationships are determined by one governmental agency and whose rates or charges are fixed by another group of authorities. More often than not, the commission responsible for establishing rates feels duty bound to "protect" the public. Consequently, owners of businesses — that is, corporations, supposedly rich and powerful — receive scant consideration.

Marketing policies, competitive advantages, public relations and many other facets of corporate management have been affected indirectly by economic and political transformations since the "revolution" of the early 1930's gave labor its impetus. Effects on the affairs of three representative but quite dissimilar companies will be analyzed in this article. This discussion of Western Union Telegraph Company, Remington Rand, Inc., and Rexall Drug, Inc., has been provoked by numerous inquiries from stockholders who wonder "what has happened?"

In reviewing events which have adversely affected profit margins, an effort will be made to indicate the extent to which managements have striven to correct unfavorable factors. It is not the intention of the writer to take a critical attitude of officials whose responsibility it is to determine policies. As in all walks of life, opinions on the proper course to pursue vary. Some executives have resisted labor's seeming "encroachments;" others have sought to gain the respect of labor leaders and to negotiate compromises that can be adjusted. This is a period of great change, and the investor must be on the alert to detect repercussions on securities he owns.

Western Union

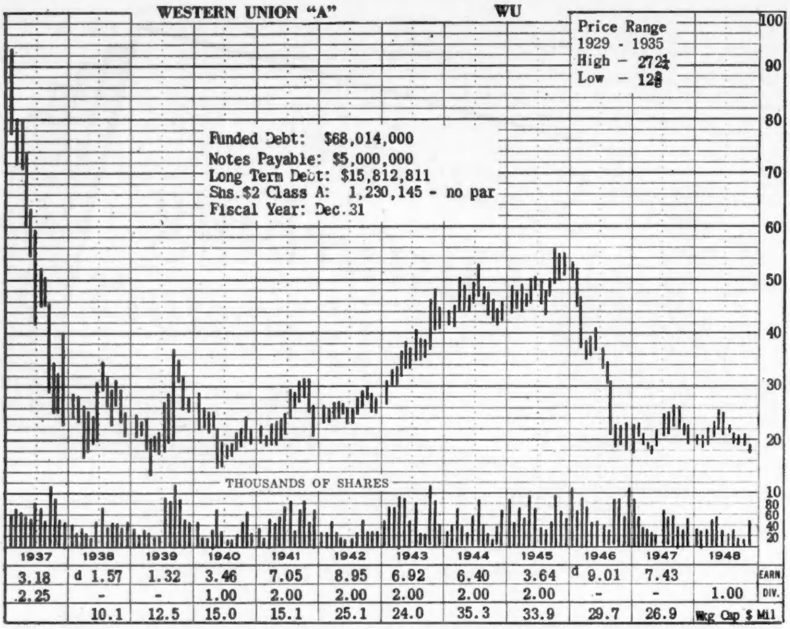
In this timely appraisal, Western Union will be considered first. Although its disappointing results may be traced to numerous uncertainties, rising labor costs present the chief obstacle to a happy solution. The telegraph business always has been primarily a service activity in which the labor factor has been high. Accordingly, when wage costs jump sharply, as they did in the early days of the war, the effect on profit margins is disastrous. No one knows better than an investor dependent on a fixed income what happens when living costs take 65 cents of each dollar of income, as against a previous ratio of 40 cents. Such a squeeze means deprivation.

In essence, this is Western Union's problem. Wages and salaries last year came to $130 million. Employees' benefits, such as unemployment and social security taxes, took an additional $6.5 million, making about $136.5 million spent for labor. This is approximately 65 per cent of $209 million gross reve-

Pertinent Statistical Data

	Net Per Share					Divs. Per Share			Price-		
	1946	1947	Interim 1948		Estimated 1948	1947	1948	Div. Yield‡	Earnings Ratio†	Recent Price	Price Range 1948
Remington Rand	$3.39 c	$3.26 c	$1.07	6 mos. Sept. 30	$2.75 c	$ .77	$1.00 a	11.1%	3.3	$9	15¼ - 9
Rexall Drug	1.17	.51	.16	9 mos. Sept. 30	.40	.37	......	......	12.5	5	8 - 5
Western Union Class "A"	def9.01	7.43	def1.26	10 mos. Oct. 31	1.50	......	1.00	6.2	8.0	16	26 - 15⅝

‡—Based on 1948 dividends.
†—Based on 1948 estimated earnings.
a—Plus 5% stock.
c—Fiscal ears ended 1947, 1948 and 1949.



Western Union

	Gross Oper. Revs. ($ million)	Net Oper. Revs. ($ million)	Oper. Ratio	Net Income ($ mill.)
1948*	$159.7	....	....	def$1.6
1947	207.1	$11.3	94.6	9.2
1946	183.0	def8.7	104.7	def11.0

*—10 months ended Oct. 31.

nues. Rents, supplies and other operating expenses cost $37.6 million.

Management is fully cognizant of the necessity for reducing the proportion of gross income disbursed in wages and salaries. The percentage should be reduced to less than 50 per cent at a minimum, but progress in this direction is discouragingly slow. While operating economies gradually are being achieved through installation of mechanical equipment, wage increases offset such gains as rapidly as they are effected. New facilities are costly and require considerable time to put into operation. This lag prevents management from making all the progress that it would like to see. Moreover, the problem of financing the mechanization program is not simple for a company whose credit standing has been impaired by shrinking profit margins.

Further Business Expansion in Doubt

The outlook would be more encouraging if one felt more confident that the communications business might expand. To be realistic, however, one must face the fact that industrial activity is at a high level and that it seems more likely to recede moderately than to increase. Competition from air mail and from the telephone is intensifying rather than diminishing. The radio is becoming a stronger competitor on overseas lines. Western Union finds the problem of distribution of messages in outlying areas increasingly difficult as labor costs rise. In short, the company's market appears less promising than might be desired.

On basis of current costs, the company's break-even point apparently is at about $200 million annually. This estimate is based on recent monthly reports. In June, for example, when sales of services — stimulated by the Republican National Convention in Philadelphia — reached $17.2 million, the company was able to show net income of $689,000, whereas in the preceding month with sales at $16.2 million, a deficit of almost $322,000 was recorded. It would seem that revenues should approximate $16.5 million monthly to enable the company to meet operating expenses and interest charges after allowance for depreciation.

To combat deterioration in margins resulting from rising wages, the company has embarked upon an ambitious modernization program. A nationwide system of automatic push button switching centers is being placed in operation. Of sixteen originally planned, all but two have been completed. The others are scheduled to come into operation in the coming year. Construction of a radio beam relay system linking New York, Philadelphia, Washington and Pittsburgh has been completed. This modern communications system is available for telegraph messages as well as television program relays now being used on an experimental basis.

Machines suitable for receiving and sending messages are installed in customers' offices and a new simplified "telefax" machine is being introduced on an experimental basis to reduce the amount of capital required for serving customers. Machines of other

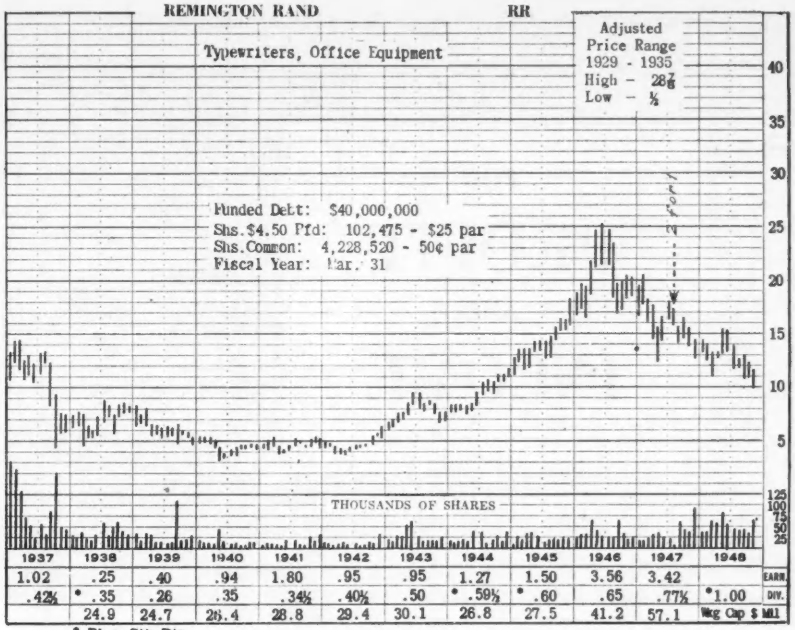
Comparative Operating Data for Office Equipment Companies

	Net Sales ($ millon) 1946	1947	1948	Operating Margin 1946	1947	1948	Net Profit Margin 1946	1947	1948
Remington Rand(x)	$147.1	$162.4	$71.7 a	18.2%	16.3%	....	10.6%	9.3%	7.0% a
Burroughs Adding Machine	46.2	69.1	77.6 b	14.3	21.6	....	4.3	9.8	12.8 b
Underwood Corporation	37.2	57.1	45.3 b	9.3	20.8	15.0% b	5.2	10.6	8.5 b
Royal Typewriter x)	35.6	49.7	....	18.4	18.4	....	11.2	11.3	....
Smith & Corona(x)	22.0	26.3	6.2 c	15.4	12.6	....	8.1	5.8	3.6 c

a—Six months ended Sept. 30.
x—Fiscal years ended in 1947, 1948.
b—Nine months ended Sept. 30.
c—Three months ended Sept. 30.

types are being developed to minimize labor requirements, such as a continuous recorder which may be used to receive telegrams automatically at central offices and agencies as well as at unattended locations where messages may be picked up by messengers for delivery.

Thus far mechanization has little more than kept pace with periodic wage increases. Eight years ago, average hourly earnings of Western Union non-messenger employees was 68.3 cents an hour, compared with 68.9 cents in all manufacturing industries at the time—January, 1941. By the latter part of 1946 the rate had risen nearly 70 per cent and currently the average earnings has reached about $1.30 an hour, or an increase of almost 95 per cent. In the lower wage brackets — for messengers — the rate has jumped much more rapidly — well over 100 per cent. Moreover, efficiency has diminished, and the unit cost of delivery is estimated to have risen 150 per cent or more.



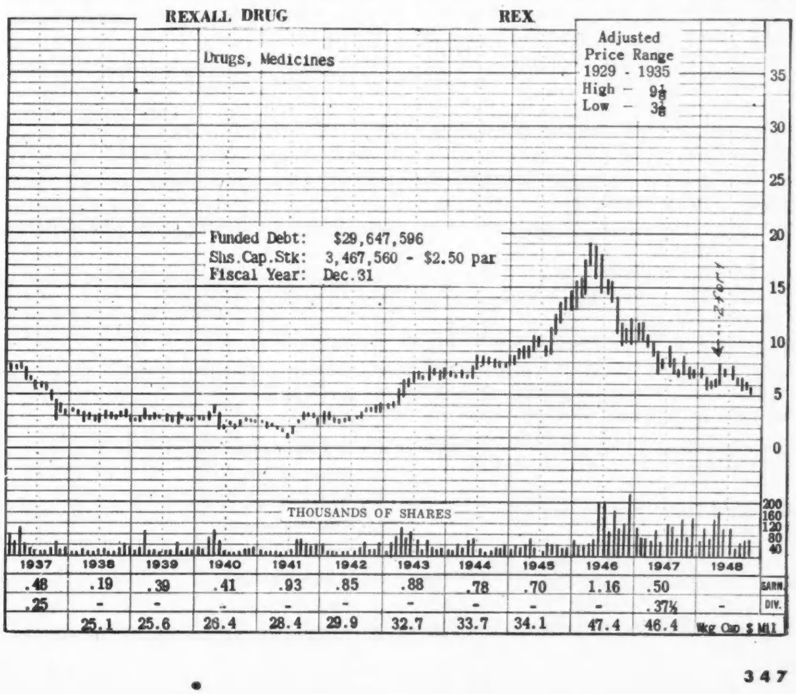
* Plus Stk Div

Competitive Aspects

Western Union's problem, so far as rates are concerned, is not so simple as that of electric utilities or the railroads. The telegraph is vulnerable to competition from air mail and the telephone. Charges for telegrams are especially stiff for relatively short distances, in which the telephone toll is highly competitive. For greater distances the air mail frequently is a potential rival. Management recognized the danger of raising rates and driving business to competitors. Hence, the company's concentrated effort to reduce costs by inducing the government to eliminate the war-time tax on telegrams of 25 per cent.

Need for improving earnings is emphasized by a major financial problem — maturity of about $10.2 million 4½ per cent funding and real estate mortgage bonds May 1, 1950 and $18.6 million 5s due December 1, 1951 together with serial maturities of $1 million annually on a Reconstruction Finance Corporation loan beginning April 1 next and running for four additional years. These hurdles have had an adverse psychological effect on the market for the common stock, which recently sold as low as 15¼ compared with the year's high of 26 and the lowest in about six years.

Except for a non-recurring profit equivalent to $2.30 a share, results for 1948 would have been worse than the indicated small deficit. Economies are anticipated for the coming year, but union regulations handicap the company's efforts to eliminate personnel. Hence, with need for further expenditures on mechanization and for acquisition of bonds in the open market when available at discounts, it seems unlikely that management will feel inclined to declare another dividend such as the $1 a share disbursed April 1, 1948. This distribution was made possible by the reasonably good showing in (*Please turn to page* 360)

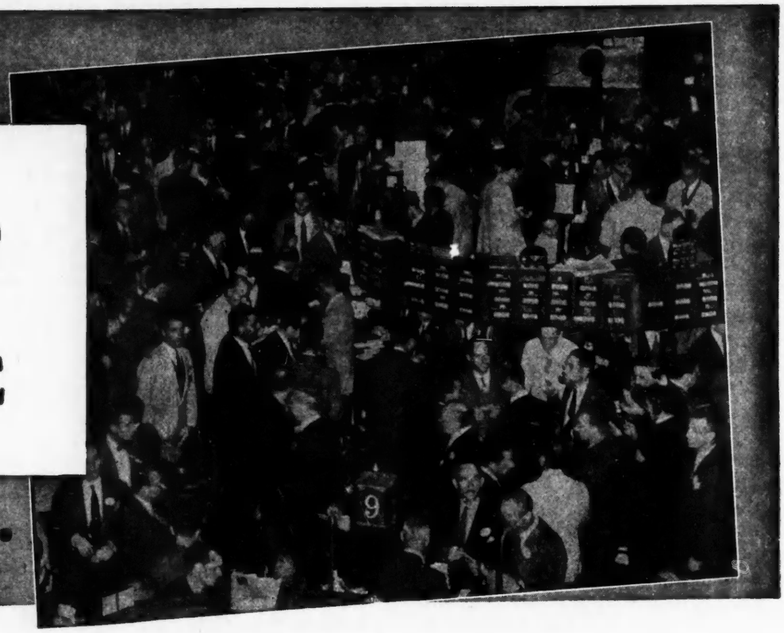


Rexall Drug

	Net Sales ($ million)	Oper. Ratio %	Net Profit Marg.	Net Income ($ mill.)
1948*	$125.9	....	0.45%	$ .6
1947	182.7	97.4	0.97	1.8
1947	178.8	94.8	2.26	4.0

*—Nine months ended Sept. 30.

FOR PROFIT AND INCOME



January

There is very little bullishness around at this turn-of-the-year season. Among investors and speculators, sentiment is predominantly cautious. Paradoxically, this is a good thing for the market. You are unlikely to see a significant decline start in that kind of psychological environment. It makes this column more hopeful for January than it could be if prevailing sentiment were aggressively bullish. The first month of the year does not have any recognizable seasonal pattern. Glancing over the chart back to 1920, we note January advances in 9 years, declines in 6, little change in 13 years. The performance of late 1946 and early 1947 cruelly deceived most technical analysts. The customary year-end advance in the industrial average seemed to peter out quickly. The trend was down during the first half of January, when it was supposed to be up on the seasonal pattern; then the market moved up in rather impressive fashion through the second half of the month and into early February. Having converted many skeptics into bulls, it next began a three-month decline amounting to 21 points in the Dow-Jones industrial average.

Hit-And-Run

The market's so-called "public" does not suddenly concentrate its buying in one group, then as suddenly shift to another. Professional operators — inclusive of brokers who generate commission business by stirring up their clients' interest in selected issues — start the ball rolling. For a time television stocks had the play. Probably they will have it again in due time, but for the present they seem to have been overbulled. Next, gold-mining stocks were given a whirl on the theory that "dis-inflation" — Nice-Nellie term for deflation — would lower their production costs and raise profits in 1949. It could do so in mild degree — so mild that only a small hit-and-run rally in gold stocks appears supportable. A third group recently getting special attention has been the motion picture stocks, with Paramount the leader. As these stocks had been out of favor for a long time, their technical position was good. Probably earnings in 1949 will be moderately better than the poor 1948 results, but nothing to shout about. This is another hit-and-run rally; not something for investors to go for.

Rails

The wage boost and shortened work week recommended for non-operating railroad employees by the Emergency Fact-Finding Board, if adopted, could eventually add something like $640 million a year to railroad operating costs, on the basis of present employment. There is a petition for higher freight rates already pending, on which the Interstate Commerce Commission may rule probably early in 1949. This case does not take a reduced work-week for the "non-ops" into account. It has seemed clear to this column all along that rail labor would get "the last round," at a time when fully offsetting rate increases could not be economically supportable — leaving the rail-

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1948	1947
Addressograph-Multigraph	12 mos. Oct. 31	$6.54	$6.42
Allied Stores	9 mos. Oct. 31	4.41	4.16
Caterpillar Tractor	11 mos. Nov. 30	5.95	4.02
City Investing Co.	6 mos. Oct. 31	1.56	.38
General Shoe	Year Oct. 31	3.45	3.34
Montgomery Ward	9 mos. Oct. 31	7.71	5.27
Nash-Kelvinator	Year Sept. 30	4.64	4.17
Universal Laboratories	9 mos. Sept. 30	.17	def. 1.23
Willys-Overland	Year Sept. 30	2.18	.96
York Corp.	Year Sept. 30	3.00	2.18

roads facing some traffic deflation, with an inflated and over-rigid cost structure. Meanwhile, there are at least two current adversities. Trucks have for some time been cutting into less-than-carload volume; and coal traffic, an important item, seems subject to near-term shrinkage because coal, partly due to the mild autumn, has been over-produced and stockpiles are large. This column looks for poorer-than-average market action by the rail group to continue.

Oil

Leading oil companies have won their fight against further inflation of crude oil prices. Back in September, Phillips Petroleum raised its buying price to $3.00 a barrel, from $2.65, expecting that the industry would fall in line. Several small companies and one big one — Sinclair — followed suit. The "majors" did not. The move cost Phillips plenty, since it had to keep refinery prices on the previous basis. Now it has rescinded the $3.00 crude price. At about the same time the Texas Railroad Commission ordered a reduction of 10% in oil output in Texas, leading oil-producing state. The stated purpose was "to keep the country from swimming in oil." There is more to this than meets the eye. As there is no apparent threat of a general over-production of oil, probably the real purpose is to help underwrite a continuing firm price structure in the industry. The outlook for profits remains favorable and good oils remain the best equity investments.

Trade

Year-to-year comparisons in the dollar volume of retail trade improved somewhat in the fortnight before Christmas, according to unofficial reports. Apparently seasonal buying habits are back. December results probably were very close to those of last year. Trade can slow down for one reason or another, but there cannot be any real slump in it as long as consumer income and employment remain at or close to peak levels. Under any conditions smart merchants will get results better than competitors! Thus, in most cases November sales of specialty and apparel stores were down from a year ago. Those of Lerner Stores were up 11.2%. Earnings this year will be around $5 a share, against $3.70 last year, probably one of the few large gains in the trade field. On December 9 the dividend was raised from a $1.50 basis to $2.00, making a yield of about 9.3% at the stock's current price of 21½. The general unpopularity of the trade group could hold back this stock. On realistic appraisal, as the equity of a demonstrated "growth" company, it is cheaply priced.

Wonder Drug

Penicillin is still a boon to mankind. It is no longer so for drug manufacturers importantly dependent on it. Too many concerns are making it, including a big liquor company which thinks it is good public policy for it to make a widely known beneficial drug and to sell it on a narrow margin. We agree. Still, that makes it tough for the other producers. The price, 24 cents per 100,000 units last spring, recently hit a new low of 17 cents. Pfizer became a market sensation some time ago on penicillin profits. It is now hurt more than any other company by this product's sliding price. The drug is also of material importance to Bristol-Myers, Squibb and Heyden Chemical but not in any sense decisive.This column continues to regard the widely diversified Sterling Drug as the best in the group, and as attractive for income-investment.

Cement

General Portland Cement is a well-balanced unit, with three plants in Texas and one each in Tennessee and Florida. It serves a market whose economic growth potentials are much above the national average, and which will get its full share of public works business. The company rates well in operating efficiency, apparently about on a par with Lone Star Cement. Earnings this year will be about $4 a share, against $2.64 last year. The dividend is $1.50, yielding 6% at current price of 25. In time it probably will be liberalized.

Yields

At the present time representative industrial stocks yield about two and one-third times as much income return as high-grade bonds. This is the widest differential since about mid-1942. In these particular terms — not price but ratio of yield to that on bonds — stocks have been appreciably cheaper than they are now only for a relatively few months of 1941-1942 and for a few weeks of 1937-1938. They are considerably cheaper on relative yield factors than they were when the market was flat on its back in June, 1932. This should mean something, since 1949 dividends probably will at least equal last year's total. To this column it suggests that a market nose-dive is most improbable. It does not assure advance, nor preclude trading-range declines.

Ill Wind

The old adage about ill winds applies to the stiff decline in prices of corn. It means less dough for farmers, cheaper — perhaps we should say less exorbitantly priced — meat for city people. It happens also to be a break for the corn refiners, who had been squeezed by high corn prices. In this field the listed stocks are Corn Products, Penick & Ford and Clinton Industries. Their 1948 earnings will be well under 1947, but improvement has been sharp in recent months and seems firmly founded. Corn Products now sells for around 57 and is on a $3.60 dividend; Penick & Ford paid $1.90 for 1948 and sells around 28; and

(*Please turn to page* 358)

DECLINES SHOWN IN RECENT EARNINGS REPORTS

		1948	1947
ACF-Brill Motors	9 mos. Sept. 30	def. $1.66	$ .28
American Broadcasting Company	9 mos. Sept. 30	.26	.62
Armco Steel Corp.	9 mos. Sept. 30	5.07	5.40
Chicago Pneumatic Tool	9 mos. Sept. 30	7.43	9.04
Consolidated Coppermines	9 mos. Sept. 30	.13	.56
Fairchild Camera & Instrument	9 mos. Sept. 30	.02	.31
Gaylord Container	9 mos. Sept. 30	2.49	3.02
Graham-Paige	9 mos. Sept. 30	def. .10	.01
Radio-Keith-Orpheum	39 weks Oct. 2	def. .09	1.76
Reynolds Spring	Year Sept. 30	.66	1.91

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Pepsi Cola Company

"Please explain the reason for recent omission of Pepsi Cola's dividend and also advise on company's present financial situation and outlook."

E. C., Phoenix, Arizona

Pepsi Cola Company and its franchise bottlers have been going through a transition period resulting from inflationary costs and unusual competitive conditions in the soft drink industry. Because of increased costs, a majority of these bottlers have raised their wholesale selling price for the big 12 ounce bottle resulting, for the most part, in a retail price of 6 cents a bottle or 30 cents for a carton of six. In order to meet competition in the 5 cent field, many of the bottlers are introduing the new Pepsi Cola 8, an 8 ounce bottle, which sells at retail for 5 cents. This 8 ounce bottle is specially designed for on-premise consumption, concessions, etc. and should enable the bottlers to vigorously push sales through bottle vending machines.

Despite the problems of this transition period, the number of cases sold by the company and its bottlers in the United States in the first ten months of this year is only about 10% below the same months of 1947. Cases sold by foreign bottlers during this same period have increased. Therefore, from the viewpoint of merchandising and consumer acceptance, Pepsi Cola continues to maintain a strong position in the trade.

In order to help its bottlers during this period, the company deemed it advisable to reduce its concentrate price in the latter part of 1947. This has naturally resulted in a reduction in the net earnings of the parent company during this period.

Certain economies in operating expenses have already been effected and steps are constantly being taken to further reduce costs of operation wherever consistent with good merchandising. Institutional advertising programs, such as the high schools scholarship work, the calendar and art competition, have been discontinued, except for existing commitments, in order that all available funds for such purposes, can be put into programs productive of more immediate results. Consolidated earnings for the first nine months of 1948 were approximately $3,-440,000 after taxes, or 60 cents a share, compared with $7,300,000, or $1.27 a share, for the first nine months of the previous year. The company has already paid 42½ cents per share to stockholders in this period. Since it is anticipated that the last quarter of 1948 will probably show some loss, the Board of Directors deemed it to the best interest of the company and its stockholders to omit this fourth quarter dividend so that dividends paid would be well within the estimated earnings of the company for the year. In addition, the company is planning a vigorous advertising, merchandising and sales program for the year ahead.

Pepsi Cola borrowed $5 million from the New York Life Insurance Company for fifteen years so as to insure ample working capital for the future. The company has at present, on a consolidated basis, over $9,200,000 in cash and Government securities, and as of October 31, 1948 current assets exceed current liabilities by approximately $11,800,000. The omission of the fourth quarter dividend was not caused by any provision of the loan agreement.

When general costs trend downward then the vigorous promotion program of the company will improve net income.

Ashland Oil & Refining Company

"Please advise on net income, crude oil production figures and prospects for Ashland Oil & Refining Company."

S. E., New Rochelle, N. Y.

Ashland Oil & Refining Company showed consolidated net income of $7,856,991 for the fiscal year ended September 30, 1948 equal to $4.67 per share on the 1,652,060 shares of common stock outstanding at the year-end after preferred stock dividends paid. These earnings compare with consolidated net income of $2,898,033 in the preceding fiscal year, or $2.82 per share on the 967,792 shares then outstanding.

Net income for the 1948 fiscal year includes earnings of Allied Oil Co., Inc. only since August 3, 1948, the date of its acquisition by Ashland. On a pro-forma basis, combined net income of both companies for the twelve months ended September 30, 1948 was $10,880,237, equivalent after deduction of a full year's dividend on the preferred stock of the company now outstanding, to $6.26 per common share.

There are outstanding 450,000 shares of $1.20 convertible preferred stock, of which 200,000 shares were issued in connection with the acquisition of Allied Oil Co., Inc., and 250,000 shares were sold in August.

(Please turn to page 361)

Keeping Abreast of Industrial and Company News

Westinghouse Electric Corporation has developed a device that explores solid steel thirty feet thick. The instrument, compared to an ultrasonic stethoscope, makes use of sound waves to test the quality of giant electric generators. High frequency sound waves—beyond the range of human hearing—penetrate steel too thick for X-rays. The process is based on the same principle as radar.

A swing from petroleum and natural gas back to coal as the nation's chief source of fuel and the ultimate replacement of natural oil products by synthetics is forecast by T. R. Rhea of **General Electric Co.** He adds that this swing will be very gradual and might extend over several decades, even though at present more heat energy is obtained from petroleum than from coal. He does not expect this condition to continue since the United States does not have unlimited petroleum reserves.

Temporary reductions in allocations of **Aluminum Co. of America's** aluminum products to customers will be necessary during the early months of 1949 because of the increasingly critical supply-demand situation in this country, according to R. V. Davies, vice president. Among the factors responsible for this he cites military requirements, lessened imports to the United States from Canada, and closing down of some plants because of a shortage of electric power.

Mulling over the fact that virtually no progress had been made in the technique of starching since the days of Cleopatra, P. Eakin of the **United States Rubber Company** led the development of a "wonder starch"—one that stays in the cloth through many launderings, cuts the cost of living by more than doubling the life of cottons, and improves muss and crush resistance. Called Perma Starch, it is easy to apply, requiring no heating or cooking; simply dipping, wringing, drying, and ironing. It is then ready to wear.

A new 2-cycle, 21½″ by 27½″ dual-fuel diesel engine, with fast, easy change-over from gas to oil and oil to gas, and engine rating of 425 horsepower per cylinder in sizes of five to ten cylinders, has been introduced by the **Lima-Hamilton Corporation.** The engine is designed for operation on low-pressure gas with extremely low pilot fuel requirements, and is described as the first large, two-cycle, loop-scavenging engine to work satisfactorily on the low-pressure gas-injection principle. It gives excellent fuel economy.

American Viscose Corporation has developed a new continuous spinning process for making rayon yarn. Called the Filamatic Process, this development is said to produce viscose rayon yarn faster than any other continuous viscose yarn process. The company is planning to install an initial 20,000,000 pounds of annual capacity with the new continuous process machines. This will represent additional spinning capacity rather than any replacement. The new yarn from the new machines is not expected to be forthcoming for about eighteen months.

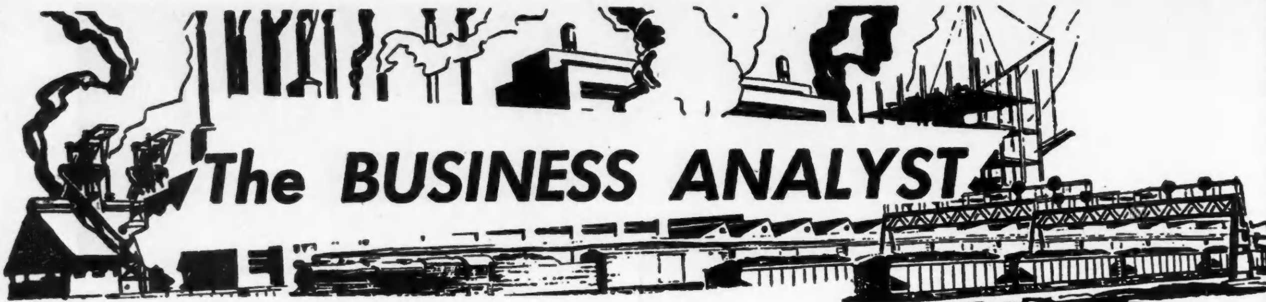
A record-breaking wage dividend of an estimated $13,000,000 for about 51,000 employees in the western hemisphere has been voted by **Eastman Kodak Company.** This wage dividend is the largest in the 37-year history of the plan and will be paid next March. Eligible employees will receive $22.50 for each $1,000 earned at Kodak during 1944 through 1948. This will make total wage dividend distributions to approximately $103,000,000 since 1912.

The one millionth rural telephone to be added by the **Bell System** since the war has been placed in service in a farm home in North Carolina. There are now more than 2,300,000 Bell System telephones serving rural areas—65 per cent more than there were on V-J Day. As a result of the record performance in telephone installations of all telephone companies, about 45 per cent of the farms of the country now have telephone service.

To prove to prospective users that Kalistron is scratch- and scuff-proof, the **United States Plywood Corporation** is sending a blotter-size mailing piece containing a nail file and a sample of this furniture and wall-covering material to potential customers. It is claimed that neither the point nor the rough side of the nail file will make any impression on Kalistron's color. The recepient is invited to make the test for himself.

A "synthetic rubber" street is one of the latest developments to come out of Akron, rubber capital of the world. Developed by the **Goodyear Tire and Rubber Company,** this involves the use of a new "hot-mix" combination that includes synthetic or finely powdered rubber, blended with conventional asphalt black top commonly used on city pavement. Engineers say that the new "mix" gives a more nearly waterproof surface than the regular black top applications, and is therefore expected to be more resilient, longer-wearing and less likely to crack in cold weather.

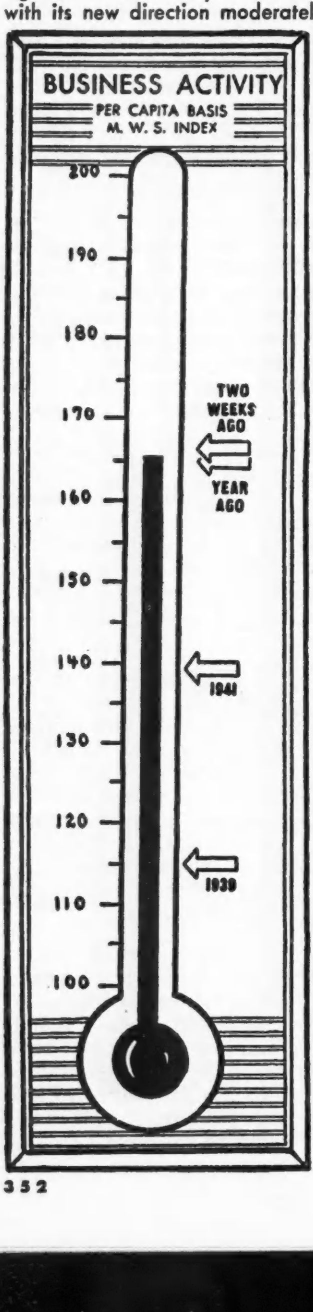
An entirely new technique in the manufacture of face plates for television picture tubes has already broken one of the major bottlenecks in production of five-inch tubes and will end the slow process of manufacture of 10-inch, 12-inch, and even larger size tube faces just as soon as the machinery is installed to begin production. Developed by the **Pittsburgh Plate Glass Company,** the new manufacturing process is the result of nearly three years of research.



What's Ahead for Business?

By E. K. A.

Opinions veer reluctantly to agreement that business once again, as it did early in 1947 and 1948, is rounding a top with its new direction moderately downward barring a considerable expansion of armament outlays. Elsewhere in this issue we are showing how such trends have been reversed in the past by injection of outside stimulants. It may be tried again but whether it will be equally effective remains to be seen. After all the boom is older, more wobbly and probably more difficult to regenerate. Moreover, there is the matter of time lag until new stimulants can become effective. Most likely this time a downtrend can hardly be averted, at least a moderate one. Probably we shall be heading for a new and somewhat lower plateau of business activity — still high by any prewar comparison but not as high as we have seen in 1948.



Official voices noting signs of an economic dip are multiplying. The Federal Reserve Board some weeks ago led the parade with word that inflationary tendencies are abating. More recently the Department of Commerce followed suit by admitting that inflationary pressures are easing but hastened to add that the overall business situation has little changed, that the national economy maintained about the same high rate of activity in November as in October. But how about December? Current indications are less reassuring. This is reflected in a statement by the Federal Reserve Bank of Chicago reporting quite a number of soft spots in the Middle West, all but obscured by near record levels in other industries. The Bank finds that boom conditions have disappeared in industries employing between 15% and 20% of workers in its district, and that other fields are being similarly affected.

All of which merely confirms the findings of businessmen and those who have been watching these trends develop. Nor has the news on the retail front improved noticeably despite a mild last minute spurt of holiday buying, and it isn't just the weather that's been holding back sales. It's consumer hesitance, generally far from voluntary. High living costs and the unbalance in purchasing power among the various population groups are finally making themselves felt.

In this connection, the rise in individual savings from an annual rate of less than \$12 billion during the second quarter to over \$15 billion in the third quarter represents an interesting phenomenon, widely cited as proof that adequate purchasing power exists but that more money goes into savings than into consumption. To some extent this may be true; doubtless a good many people have deferred buying in anticipation of lower prices while others may be developing a greater inclination to lay something aside against a rainy day. Yet in the opinion of this column, this is only half the story. The other half is uneven distribution of savings: Growing numbers of people have none at all and still others are constantly forced to draw upon what's left to make ends meet. Conclusion: Don't bank too much on the prospect that these increased savings will be translated into effective demand any time soon. More likely, the bulk of them will stay where they are. They won't come to the rescue of the boom that is now plainly losing momentum.

Disappointing retail sales mean inventory adjustments early this year which can have marked impacts on price trends, on employment, on production. Nothing drastic is anticipated, but the quicker the readjustment to a new and somewhat lower level of general economic activity, and prices, the better it will be. It's preferable to a long drawn-out process, fighting the trend every step. A reassuring factor are the many elements of strength that will prevent a deep spiraling of deflationary tendencies through the entire economy.

Out of the Stratosphere

In appraising the recessionary trends now obviously developing, one should not forget that we have been living in the stratosphere for quite some time, and that we cannot live there forever. Some time there must be an adjustment to a more normal level of economic activity and this is where we are headed for. It is far from an unmixed evil; indeed it has its compensations. It may make for greater stability in labor relations, for a more considered approach to the matter of business taxes, for less "fourth round" pressure, for fewer Government controls.

The Business Analyst

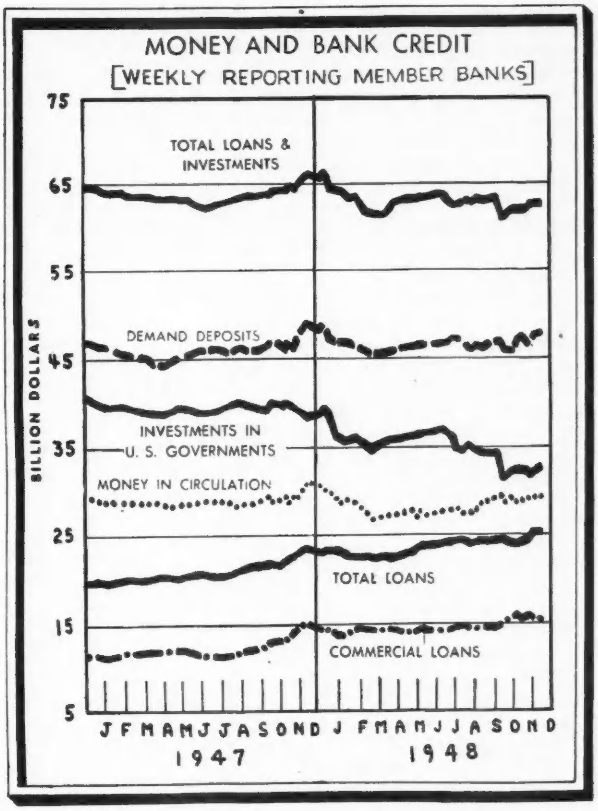
HIGHLIGHTS

MONEY AND CREDIT — Stocks mildly reactionary during week before Christmas under renewed tax selling and on political and business uncertainties. U. S. Governments gain in response to growing confidence that Government support will be continued and that interest rates will not be raised in the near future. Treasury runs a budget deficit of over $0.5 billion, despite the $3.5 billion carryover from last year's surplus. But March income tax collections will transform red ink into black, for several months at least. Commercial loans have been contracting contraseasonally; but picked up a little recently. Labor wants excess profits tax restored to facilitate bargaining for fourth round of wage increases; but business thinks this might precipitate a business depression by curtailing capital expenditures. Prices for gold and U. S. dollars soar in Paris as French lose confidence in the franc. Price of foreign silver drops at New York under increased offerings from Mexico.

TRADE—Department store sales pick up some in pre-Christmas week after holding below last year for seven consecutive weeks. For first nine months of the current year, profits per dollar of sales reported by department and specialty stores shrank to 3.8 cents, from 4.1 cents in the like period last year.

INDUSTRY—Durable goods profits in first nine months were 30% above last year, but net reported by leading soft goods makers were off fractionally. With the recession in consumer goods lines beginning to show signs of spreading to capital goods, per capita business activity sagged during the fortnight ended Dec. 11, for the first time in over two years, to a level slightly below the previous year.

COMMODITIES—Grain prices turn reactionary again under continuing favorable crop weather, and shift in European demand from foodstuffs to capital goods.



Latest reports indicate that the **Business Boom** may have spent its force, for the time being at least; though any let-up that may develop next year would probably be relatively mild, and possibly of comparatively short duration. It is significant, however, that the recession which for several months has become evident in consumer goods lines, is beginning to show signs of spreading into the capital goods field.

* * *

For the month of November, this Publication's index of **Business Activity** rose to 189.4% of the 1935-9 average, from 187.7 in October, showing an increase of 3.2% over November of 1947. On a per capita basis, the November index registered 166.4% of the 1935-9 average, compared with 165.1 in October, and 164.2 for November of last year.

* * *

Of recent months, expansion in the **Gross National Product** on a constant dollar basis, as measured by our index of Business Activity, has been at a slower pace than last year. In fact this index, adjusted to a per capita basis, sagged in the fortnight ended Dec. 11 to a level slightly under a year ago. This is the first time in over two years that the physical volume of services rendered and goods produced has failed to more than keep pace with the growth in population.

* * *

That the business boom is petering out may also be gathered from the Census Bureau's latest report on employment. **Unemployment** in early November expanded to 1.8 million — 200,000 more than a year earlier. This is the first time in three years that more people failed to find work in November than in October. There was a sharp drop of more than seasonal proportions in agricultural employment, owing to propitious harvesting weather and wider use of machinery; but non-agricultural employment expanded a little, thanks mainly to the increasing number of women who are taking outside jobs to supplement the family income.

* * *

Of recent weeks, scattered reports have been coming to hand of lay-offs and a shortening of the work weeks. In some quarters this is looked upon as propaganda aimed at discouraging a fourth round of demands for wage increases; but a more realistic explanation may be found in overproduction of some lines and unseasonably warm weather which has temporarily cut demand for other products, notably coal and heating oils. Whatever the cause, it is doubtful whether there has been any increase in **Man-Hours** worked during the past 12 months, despite a 2% increase in civilian employment.

* * *

Since our index of business activity points to an increase of 3.2% in the nation's total output between November of last year and November this year, and if the assumption is correct that there has been virtually no change in man-hours worked, then there must have been noticeable improvement in **Labor Efficiency,** a development that has always accompanied rising unemployment.

* * *

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURES—$b (e)	Nov.	1.16	1.08	1.04	1.55
Cumulative from mid-1940	Nov.	374.8	373.6	361.7	13.8
FEDERAL GROSS DEBT—$b	Dec. 15	252.1	252.3	257.3	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Dec. 8	47.6	47.3	48.6	26.1
Currency in Circulation	Dec. 15	28.4	28.4	28.9	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Dec. 8	8.67	8.44	8.05	4.26
93 Other Centers—$b	Dec. 8	13.19	13.00	12.41	7.60
PERSONAL INCOMES—$b (cd3)	Oct.	218	217	202	102
Salaries and Wages	Oct.	139	139	126	66
Proprietors' Incomes	Oct.	51	50	48	23
Interest and Dividends	Oct.	18	17	16	10
Transfer Payments	Oct.	10	11	12	3
(INCOME FROM AGRICULTURE)	Oct.	25	25	22	10
CIVILIAN EMPLOYMENT—m (cb)	Nov.	57.9	60.1	58.6	51.8
Agricultural Employment (cb)	Nov.	8.0	8.6	8.0	8.8
Employees, Manufacturing (lb)	Oct.	16.6	16.7	16.2	13.8
Employees, Government (lb)	Oct.	5.8	5.8	5.4	4.6
UNEMPLOYMENT—m (cb)	Nov.	1.8	1.6	1.6	3.8
FACTORY EMPLOYMENT (1b4)	Oct.	163	164	160	47
Durable Goods	Oct.	189	188	185	175
Non-Durable Goods	Oct.	147	146	141	123
FACTORY PAYROLLS (1b4)	Sept.	382	375	345	98
FACTORY HOURS & WAGES (1b)					
Weekly Hours	Oct.	40.0	39.8	40.6	40.3
Hourly Wage (cents)	Oct.	136.3	136.2	125.8	78.1
Weekly Wage ($)	Oct.	54.64	54.18	51.05	32.79
PRICES—Wholesale (1b2)	Dec. 14	163.0	163.7	162.6	92.5
Retail (cdlb)	Oct.	194.9	196.2	184.9	116.2
COST OF LIVING (1b3)	Oct.	173.6	174.5	163.8	110.2
Food	Oct.	211.5	215.2	201.6	113.1
Clothing	Oct.	201.6	201.0	189.0	113.8
Rent	Oct.	118.7	118.5	114.9	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	Oct.	11.58	11.06	10.94	4.72
Durable Goods	Oct.	3.27	3.17	2.99	1.14
Non-Durable Goods	Oct.	8.31	7.89	7.95	3.58
Dep't Store Sales (mrb)	Oct.	0.93	0.90	0.88	0.49
Retail Sales Credit, End Mo. (rb2)	Oct.	7.28	7.00	5.40	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	Oct.	254	265	255	181
Durable Goods	Oct.	282	303	291	221
Non-Durable Goods	Oct.	236	242	234	157
Shipments (cd2)—Total	Oct.	355	367	328	187
Durable Goods	Oct.	396	404	348	227
Non-Durable Goods	Oct.	332	346	316	158
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	Oct.	54.4	53.7	47.8	28.9
Manufacturers'	Oct.	30.8	30.7	27.4	16.7
Wholesalers'	Oct.	8.4	8.3	7.3	4.1
Retailers'	Oct.	15.2	14.7	13.1	8.1
Dept. Store Stocks (mrb)	Oct.	2.5	2.4	2.2	1.4
BUSINESS ACTIVITY—1—pc	Dec. 11	166.1	166.6	166.2	141.8
(M. W. S.)—1—np	Dec. 11	189.5	190.1	186.5	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 353)

Isolated instances have even been reported recently of men going back to work in a small plant at **Reduced Wages,** rather than be thrown out of work permanently by closing of the plant. And there was nothing the union could do about it. Of course one swallow does not make spring; but such instances do raise some question as to the inflexibility of wages in the next business depression. They never have proved to be inflexible in depressions of the past, except for a brief and unsuccessful try-out under the N. R. A.

* * *

It might even happen, at some future date, that the presently accepted theory of high **Break-Even Points** will have to be re-examined.

* * *

Among more conspicuous victims of unseasonably warm weather are **Coal** and heating oil. Inventories of the former fuel have become so top-heavy that John L. Lewis is thinking of prolonging indefinitely this year's Christmas vacation period in order to put the miners in stronger bargaining position when the time comes for renewing their contract. It has become an established tradition that the coal miners will not work without a contract, and it begins to look as though presently they will not work with one. Either way, with all the work stoppages, it takes a big chunk out of a miner's annual wage to pay the cost of winning a high hourly wage.

* * *

Unseasonably warm weather followed by snow storms have combined with rising imports and domestic production of **Petroleum** to ease the hitherto tight supply-demand situation in oil products to the extent that price reductions are beginning to appear in some areas. Phillips Petroleum has just abandoned the premium it had been paying for crude in the Texas field.

* * *

There are still tight conditions in several heavy goods lines; though even here there has been some dampening of earlier optimism as to the outlook. **Automobile Production** is still achieving new high records weekly; but dealers who only a few months ago were proclaiming that it would be at least two years before supply in this industry catches up with demand, are now saying one year or less.

* * *

The Labor Department reports that expenditures on new **Construction** during November were only 8% above the like

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
INDUSTRIAL PROD.—1—np (rb)	Oct.	195	192	191	174
Mining	Oct.	159	156	155	133
Durable Goods Mfr.	Oct.	230	224	223	220
Non-Durable Goods Mfr.	Oct.	179	178	176	151
CARLOADINGS—t—Total	Dec. 11	783	804	854	833
Manufactures & Miscellaneous	Dec. 11	379	383	403	379
Mdse. L. C. L.	Dec. 11	98	102	116	156
Grain	Dec. 11	53	54	47	43
ELEC. POWER Output (Kw.H.)m	Dec. 11	5,705	5,646	5,327	3,267
SOFT COAL, Prod. (st) m	Dec. 11	11.9	11.5	13.4	10.8
Cumulative from Jan. 1	Dec. 11	554	542	591	446
Stocks, End. Mo.	Oct.	69.0	67.6	50.3	61.8
PETROLEUM—(bbls.) m					
Crude Oouput, Daily	Dec. 11	5.6	5.6	5.2	4.1
Gasoline Stocks	Dec. 11	97	95	88	86
Fuel Oil Stocks	Dec. 11	86	86	53	94
Heating Oil Stocks	Dec. 11	82	84	55	55
LUMBER, Prod. (bd. ft.) m	Dec. 11	467	461	545	632
Stocks, End Mo. (bd. ft.) b	Oct.	7.2	6.9	6.0	12.6
STEEL INGOT PROD. (st.) m	Nov.	7.76	7.99	7.24	6.96
Cumulative from Jan. 1	Nov.	80.7	72.9	77.5	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Dec. 16	146	84	130	94
Cumulative from Jan. 1	Dec. 16	6,968	6,822	5,574	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Dec. 11	202	218	162	165
Cigarettes, Domestic Sales—b	Oct.	31.3	30.0	33.1	17.1
Do., Cigars—m	Oct.	535	545	588	543
Whiskey Production (tax gals.)m	Oct.	12.2	11.4	9.7	11.8
Do., Domestic Sales	Oct.	6.1	4.7	7.8	8.1
Do., Stocks, End Month	Oct.	542	537	474	506

PRESENT POSITION AND OUTLOOK

period last year, against a cumulative increase of 29% for 11 months.

* * *

But among consumer goods lines, instead of a slowing down in the rate of expansion, we find actual declines. Thus **Department Store Sales** in the week ended Dec. 18 were below last year for the eighth consecutive week. Sales by wholesalers in October were 5% below last year. Slowing down of consumer interest is being felt even in the mail order business where sales in November, for the first time in over two years, dipped below the corresponding month of the previous year.

* * *

The marked divergence in trend this year between hard and soft goods industries has been logically reflected in earnings. Average net **Profits** earned in 9 months by 169 leading makers of durable goods were 30% above the like period last year, whereas 56 soft goods companies reported a dip of 2/3 of 1%.

* * *

Labor leaders who favor stiff **Excess Profits Taxes** appear to be overlooking the probability that the resulting reduction in funds available for capital expenditures would lead to unemployment and thus precipitate a business recession.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept. (Avge. Month 1939—100). cd3—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cd1b—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. 1—Seasonally adjusted Index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935-9—100). lb4—Labor Bureau, (1939—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

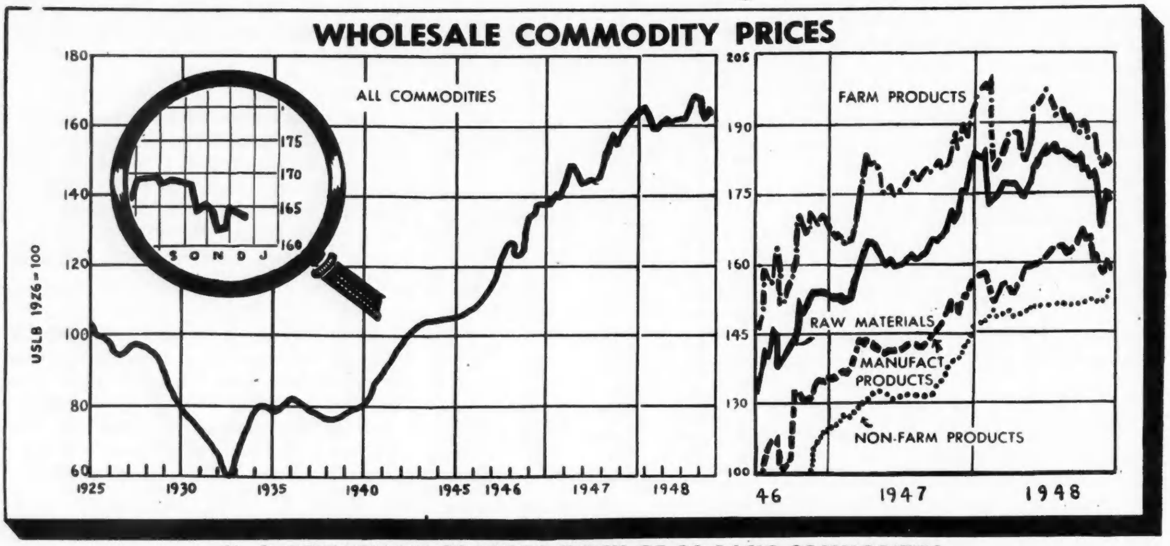
No. of Issues (1925 Close—100)	1948 Indexes High	Low	Dec. 11	Dec. 18
312 COMBINED AVERAGE	151.9	119.0	125.3	122.8
4 Agricultural Implements	240.1	178.8	199.9	192.8
11 Aircraft (1927 Cl.—100)	193.5	134.3	166.4	160.1
6 Air Lines (1934 Cl.—100)	515.6	342.1	383.0	365.3
6 Amusement	106.8	73.0	78.0	76.7
13 Automobile Accessories	224.1	171.1	183.2	181.2
12 Automobiles	41.3	27.8	28.0	27.8d
3 Baking (1926 Cl.—100)	21.9	16.4	19.0	18.4
3 Business Machines	297.1	223.6	223.6c	225.0
2 Bus Lines (1926 Cl.—100)	168.4	126.6	128.5	126.6a
5 Chemicals	267.1	218.0	223.8	223.1
2 Coal Mining	26.9	14.7	19.6	19.2
4 Communication	56.1	36.6	38.1	37.1
13 Construction	71.5	55.9	58.0	56.4
7 Containers	346.0	263.5	271.5	265.4
9 Copper & Brass	119.1	92.0	95.0	92.9
2 Dairy Products	60.2	50.7	53.7	54.8
5 Department Stores	71.9	53.5	54.5	54.4
6 Drugs & Toilet Articles	184.4	140.2	147.4	145.0
2 Finance Companies	268.3	199.4	248.7	247.9
7 Food Brands	177.6	147.8	149.6	147.8
2 Food Stores	67.5	57.9	57.9c	59.0
3 Furniture	88.3	66.5	69.2	66.5a
3 Gold Mining	772.7	515.1	516.5	619.2

(Nov. 14, 1936, Cl.—100)	High	Low	Dec. 11	Dec. 18
100 HIGH PRICED STOCKS	91.84	75.27	80.01	78.84
100 LOW PRICED STOCKS	182.86	135.10	142.93	138.81
6 Investment Trusts	71.6	50.0	57.2	56.3
3 Liquor (1927 Cl.—100)	843.5	637.7	697.7	687.3
9 Machinery	179.5	128.4	130.9	128.6
3 Mail Order	125.5	89.8	99.6	96.7
3 Meat Packing	112.7	73.5	76.7	73.5c
13 Metals, non-Ferrous	189.1	138.0	153.8	149.8
4 Paper	48.7	34.1	36.0	35.7
25 Petroleum	301.0	199.5	245.6	241.3
19 Public Utilities	124.9	97.8	102.3	100.9
5 Radio (1927 Cl.—100)	30.6	17.8	27.0	25.8
8 Railroad Equipment	67.2	46.1	48.6	47.6
24 Railroads	30.3	20.5	23.9	22.8
3 Realty	27.1	21.1	22.7	23.1
2 Shipbuilding	146.1	102.8	125.2	120.6
3 Soft Drinks	516.5	303.5	308.9	303.5
14 Steel & Iron	127.0	96.2	105.9	102.6
3 Sugar	54.7	44.8	47.2	46.6
2 Sulphur	281.9	206.6	265.9	262.6
5 Textiles	170.4	118.9	129.9	126.5
3 Tires & Rubber	33.6	27.5	29.3	29.4
6 Tobacco	71.7	62.4	68.2	67.2
2 Variety Stores	327.8	286.9	308.6	309.3
17 Unclassified (1947 Cl.—100)	109.8	89.6	91.3	90.0

New LOW since: a—1947; c—1945; d—1944.

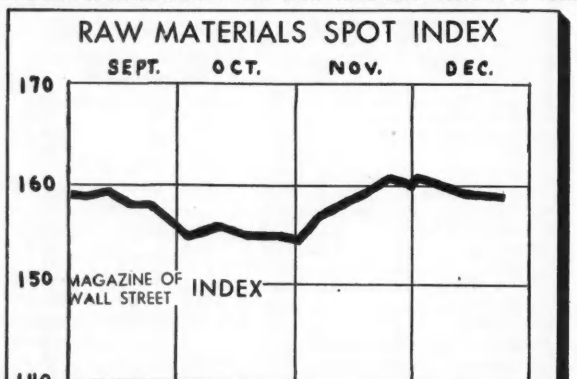
Trend of Commodities

Grain prices have been reactionary since our last issue, under favorable crop weather combined with political and business uncertainties. A record acreage has been planted to winter wheat this year—61,370,000 acres. The Government had asked for a reduction of 8% below last year. What it got was a 5% increase under promise of continued price support through 1949. Under average weather conditions, there should be an average yield of 15.7 bushels per acre (this year the yield was 17 bushels); this should produce a winter crop of 964.8 million bushels. Adding the estimated spring crop of 295 million points to a total wheat harvest next year of around 1.26 billion bushels. This would compare with this year's harvest of 1.27 billion and the 1947 record 1.37 billion. It has been decided at the White House that the Government will continue to handle purchases for European recovery; but that contracts signed with private dealers prior to the annoucement will be honored. During November, 39% more cattle were shipped into corn belt states for fattening than were shipped a year earlier. This might look like cheaper and juicier steaks next year; but the catch here is that they are being shipped out at about the same rate. Theoretically it should be much more profitable just now to sell feed in the form of meat; but farmers fear to be caught in a possible slump of cattle prices. They have been burned that way before, and are now playing safe with "quickie" feeding. Dealers think that export plus domestic demand for cotton this season will be closer to 11.5 million bales than to the Government estimate of 13 million. If so, there could be a carryover of 6.5 million bales—more than twice as large as a year earlier.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August, 1939, equals 100

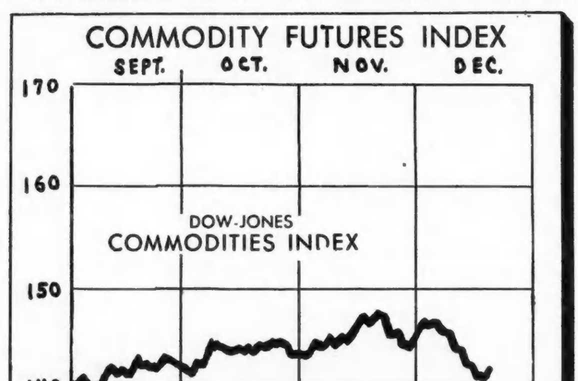
	Date Dec. 20	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	296.6	303.9	306.9	311.3	331.6	352.6	156.9
11 Imported Commodities	268.9	273.1	280.9	280.2	286.1	312.5	157.5
17 Domestic Commodities	316.1	325.6	325.0	333.2	363.0	389.3	156.6
7 Domestic Agriculture	311.5	320.9	316.7	339.3	399.0	415.6	163.9
12 Foodstuffs	329.8	341.4	348.0	367.7	423.2	444.3	169.2
16 Raw Industrials	278.2	279.9	281.0	277.4	277.1	296.2	148.2



14 Raw Materials, 1923-5 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1948	1947	1945	1943	1941	1939	1938	1937
High	162.2	164.0	95.8	92.9	85.7	78.3	65.8	93.8
Low	149.2	126.4	93.6	89.3	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1948	1947	1945	1943	1941	1939	1938	1937
High	168.83	175.65	106.41	96.57	84.60	64.67	54.95	82.44
Low	139.83	117.14	93.90	88.45	55.45	46.59	45.03	52.03

The New Gold Propaganda

(*Continued from page* 329)

stable and enduring financial basis for peace and prosperity.

Among the beneficiaries of a higher gold price would of course be the hoarders and speculators who acquired gold not only as a vehicle for their wealth but to profit from any future increase in the gold price for which they fervently hope. It would also greatly benefit one country—Russia, an important gold producer in her own right.

Naturally Russia, straining to the utmost to boost her gold production through exploitation of millions of slave laborers, would immensely welcome a higher gold price not only because her gold would then bring more in terms of dollars or American goods, but because of the resultant automatic increase in value of the Russian gold hoard, today the largest next to our own. This would enormously facilitate whatever monetary or financial manipulations and machinations the men in the Kremlin would see fit to undertake.

In strange contrast to her political and economic ideology, Russia is acutely gold conscious and her rush to build huge gold reserves is highly significant. The Soviets know only too well that gold will buy everything needed for peace or war. They know equally well that an ample gold supply will be of inestimable value in furthering their political and economic aims. By raising our gold price, we would give them valuable aid in any effort to outmaneuver us financially whenever their designs call for such action. Doubtless such designs exist, looking towards winning of the cold war not only on the political front but financially and economically as well.

Britain, because of her close relationships with such leading gold producers as Canada and particularly South Africa, would likewise benefit importantly. A higher gold price would not only bolster Britain's gold reserves in terms of dollars but she probably could create enough dollars credits to aid her balance of payments position vis-a-vis this country though hardly enough so immediately to be able to dispense with American aid through ECA. But by strengthening sterling and her gold position, she would also strengthen her foreign trade position.

On balance, and for the many reasons adduced in the foregoing, retention of the $35 gold price appears advisable. It is clear that the interests of our economy and those of orderly currency relationships (what's left of it) must take precedence over the special interest of the gold mining industries. As to the latter, it is far from certain that gold mining costs will remain high indefinitely, and tampering with the focal gold-dollar relationship merely for the sake of temporary conditions would hardly be rational.

In this connection, the recent revival of interest in gold mining shares is significant in that it is chiefly based on the belief that inflation is waning, that as a result mining costs will go down enabling gold producers to make more money. It has always been that way. Gold miners traditionally are doing well in depressions and faring poorly during booms.

Convertibility No Panacea

Companion to the error that a higher gold price can cure many of the world's ills is the thinking that sees a panacea in the restoration of convertibility of paper money into gold coins. In part it is based on the mistaken idea that our gold reserves are virtually sterilized and useless, that our gold at Fort Knox is doing nothing. But far from being so, our gold at Fort Knox is doing plenty. Much the larger part of it is pledged as security for the circulating notes of the Federal Reserve System and for the deposit liabilities of its member banks.

How useful a purpose it serves is attested by the fact that the dollar is one national currency which is universally wanted and trusted—which next to gold itself is the favorite medium of hoarders the world over. By acting as a foundation for the world's strongest currency, our gold is being used as the standard of value for the monetary systems of the world. In short, by maintaining confidence in the dollar, it serves as a world value standard. The dollar is supreme today not only because of our great productive capacity and our resources, but because of the billions of gold back of our currency.

Restoration of convertibility is advocated as a universal remedy for inflation and to spur revival of confidence, both here and abroad. Doubtless resumption of the gold standard everywhere should be and probably is the ultimate objective of monetary policy. The big question is whether such a step would be practical or suitable in the present world situation. The subject is an international one and its satisfactory solution demands a high degree of international cooperation that somehow does not seem possible at this time.

Proponents of convertibility rest their case on the belief that it provides an automatic check on mismanagement, and that it makes for stability; they hold that the gold coin standard alone can act as an effective brake upon excess issue of currency and thus overcome or prevent rampant inflation. Actually of course our gold stock does provide a limitation against unreasonable and unsafe expansion of both the circulating medium and of deposit money though not quite in the manner of a gold coin standard. However the limitations inherent in the latter are hardly practical today; they belong to a past era and even then they offered no panacea. Convertibility was the rule in the 1920s, but despite it the world moved persistently toward the monetary and economic disorders that followed and which, incidentally, terminated convertibility itself.

Time Inopportune

Despite claims to the contrary, there could be no more unsuitable time for restoration of convertibility than the present. It is impossible and impractical abroad —in most countries—until fiscal conditions have been created that make for confidence, and the needed fiscal reforms largely boil down to questions of politics.

Here at home, we doubtless have enough gold to resume the gold coin standard if we were so minded but it would be fallacious to assume that we could thereby halt inflation, should basic trends continue to work in this direction. In that event, however, we might witness a considerable rush away from the dollar and into gold in an effort to conserve purchasing power, a flight from liquid dollar assets that might be greatly upsetting. Such a "run" on gold,

should it occur, might have disruptive fiscal impacts which we should hardly court at this time. Rather our paramount interest lies in keeping the dollar and our economy sound. Neither raising the gold price nor return to convertibility *per se* will keep it so, only sensible fiscal and economic policies will.

Investment Audit of National Biscuit

(*Continued from page* 344)

assets of $96.7 million compare with total current liabilities of $28.7 million, a ratio of 3.4. Holdings of cash and Government bonds alone at the end of 1947 were $46.8 million. Working capital of $67.9 million represented an all-time peak and was just about double the level seven years earlier.

Looking ahead, this impregnable financial status promises well to implement and support National Biscuit Company's improvement program designed to expand capacity and to widen profit margins. Prior to the war, Nabisco was so thoroughly entrenched in the trade that rather than modernize its old factories and equipment it stuck to policies that involved "let well enough alone." In other words, while earnings from year to year proved stable, they were on a lower plateau than formerly, for prices rather than manufacturing costs were the main determinants of margins, and the company was hesitant to spend the huge amounts needed to bring its facilities up to date.

More recently this concern, as well as some of its competitors, has become convinced that newly developed machinery and methods could revolutionize the production of many of its leading products. National Biscuit Company accordingly now has under way an improvement program that involves outlays of about $60 million through 1953. Already in operation is a new modern plant in Atlanta, Georgia, equipped with machinery that has brought surprising cost savings. In contrast to the old type reel ovens upon which the company depended for decades, new band ovens over 750 feet long, six in a group, pour out torrents of finished crackers and cookies. In terms of 100 pound batches, labor costs have declined to $1.80 compared with $3 formerly.

But these improvements are only a part of the measures undertaken to reduce costs. Materials handling expenses have been reduced by the elimination of barrel shipments of shortening. This ingredient now comes to the Atlanta mill in tank car lots and is pumped directly into bulk storage. Nabisco also has built experimental cars from which flour is pneumatically sucked into storage, thus doing away with the old 100 pounds bags and much handling. Ultimately the company's technicians hope to completely mechanize and coordinate all operations, from bulk deliveries to mixing, baking, packaging and shipping, with a gilded goal of saving perhaps as much as six cents on each dollar of volume.

At the current rate of sales and a 38% tax rate, it has been estimated that the program might lift per share earnings by about $1.50 annually. This seems conservative, because it does not allow for greatly increased output potentials when the full program is completed. Where Nabisco now turns out about 1.2 billion pounds of products, this should be substantially stepped up in due course, but as we have pointed out, several years will pass before the program can be completed.

Capitalization

The 6,289,448 $10 par common shares of National Biscuit Company are preceded by 248,045 shares of non-redeemable $100 par 7% cumulative preferred stock, but this is the only senior issue. Both classes have paid dividends without a break for the last fifty years. Under war conditions annual dividend payments on the common were held to $1.20 per share, compared with $1.60 paid in the 1938-41 period. $1.50 per share was paid in 1947 and $2 in 1948.

Dividend policies have been exceptionally liberal, shareholders often receiving more than 90% of earnings, and sometimes even in excess of earnings. For this reason, though 1948 net may not exceed $3 per share, or even run a little lower, the $2 paid may be considered as well assured. Recent price for the common of 30½ gives a yield of 6½%, rather attractive considering the investment caliber of Nabisco stock. Over the longer term, also, the shares should prove desirable from a speculative standpoint in view of the steps taken to reduce costs and improve earning power.

For Profit and Income

(*Continued from page* 349)

Clinton Industries, priced at about 26, pays $2.40, on a basis of 20 cents a month.

Soft Drinks

What's the matter with the soft drinks stock? The main thing is that Coca Cola, a very rich company, is determined to stick to its nickel-a-drink policy. If that means lean pickings for various outfits which have adopted variants of the "cola" name — quite legally, of course — the Coca Cola Company should worry. Pepsi-Cola sold a little above 40 in 1946, and as high as 24⅛ earlier this year. Recently it has been around 8.

Grumman

As a speculation on national defense spending for a period of some years, Grumman Aircraft, standing well with the Navy, is one of the best. Earnings for 1948 will be about $2.50 a share. This is a little under half of peak war earnings of $5.62 in 1945, but due to working capital needs Grumman paid only 75 cents in dividends in 1945, although the stock sold as high as 27¾. Now its working capital — and cash — positions are quite comfortable. So the management has paid $2.00 a share in dividends last year. On that basis the stock, around 19, yields well over 10%. Some dividend has been paid each year since the company began distributions in 1933.

Correction

In our December 18, 1948 issue, in an article discussing the motion picture industry, it was stated inadvertently that Columbia Pictures Corporation has paid no dividends for the past six years, rather than in six selected years as intended. The facts are that this concern has paid dividends in cash and/or stock regularly since 1942, including a cash dividend of $1 plus 2½% in stock in 1947, and a 2½% stock dividend in 1948. We regret our error and take this opportunity to rectify it.

Commodity Price Trends For The First Quarter

(*Continued from page 338*)

to decline substantially under the pressure of heavy marketings of fattened cattle, but these declines will represent just about the last major declines in farm products prices. Without Federal price supports, farm products prices undoubtedly would continue to decline but there is no reason for believing that government price supports will be particularly less effective than they are now in putting "floors" under grains, cotton, and other field crops.

Price pressure now is shifting from agricultural products to non-agricultural products. Pressure will be intensified by any contractions in business activity and employment. If income shrinks and food prices display considerable rigidity as a result of government price supports, the percentage of income spent for food may increase even further. Previously, in business and price recessions, food prices have declined more rapidly than commodity prices generally with the result that pressure on prices of non-agricultural commodities has been deferred. Historically, metals and metals products prices have been last to recede.

Price Cutting In Hard Goods

Interestingly enough, however, and with industrial activity still close to peak levels, retail sales of durable consumers' goods are contracting rapidly and some official and unofficial price cutting has been reported at the retail level. At mid-December, the "gray" market in steel was reported to be disappearing rapidly as many of the newer and smaller durable goods producers who had been buying gray market steel owing to lack of established supply sources had either curtailed operations or shut down completely.

Lumber and other building materials prices have eased considerably from their lofty post-war peaks owing to the slackening in construction, and pressure on this group is likely to continue. It is believed quite likely, however, that the first quarter of 1949 will witness a sharp and sudden shift in the metals supply situation from scarcity to plenty. Metals production is abnormally high, even after allowance for government stockpiling, ECA, and defense uses, and it would not take much contraction in demand to tip the situation from scarcity to plenty. There are few who look for this development to occur, and hence it might have considerable repercussion. Although metals prices are controlled to a greater extent than are prices of many other materials, they are not rigid. Just as we have seen prices at "second hand" rise above official quotations, so are we likely to see them decline at second hand before official reductions are made.

Although the first quarter of 1949 is unlikely to witness the end of price recessions, there is a good

possibility that the worst of currently impending price deflation will have been seen as the quarter draws to a close. Farm products prices are unlikely to ease substantially, as a group, from present levels, but declines in other areas may be rapid and considerable.

The Economic Revival of Western Germany

(*Continued from page* 335)

exports to the Western World. To do this, she will have to reshape her economic structure to an extext far greater than it is generally realized.

The cost will be staggering and will require sacrifice and understanding on the part of the Germans and the granting of generous aid on the part of the United States and other Western Allies. It may not be accomplished without some depreciation of the new mark. The West has just as much at stake in the new currency as the Germans. Whatever happens to it will decide whether Western Germany is to be a bridge or a dam. A bridge for the extension of the collectivist system and the Soviet influence into Western Europe, or a dam against it.

Securities Disturbing Investors

(*Continued from page* 347)

1947, which was helped by the prolonged telephone strike.

Remington Rand

The relatively unfavorable trend of Remington Rand, as compared with leading competitors, is not so readily explained by a simple reference to rising labor costs. Other factors probably should be taken into account—for example, the high degree of leverage in the company's capitalization which presents a hazard for the common stock in a period of declining profit margins. The analyst also may wonder whether unit production costs may be relatively higher than competitors' because of recurrent labor trouble. Remington Rand seems to have had more than its share of disputes over wages. Whether these difficulties have been due to management policies or to union leadership is unimportant, for the purpose of this discussion; but productivity appears to have been harmed.

Recent poor action of the stock probably may be explained in part by indications of a slackening in demand for typewriters—largest contributor to Remington Rand's volume. While the company makes a full line of office equipment, including tabulating and accounting machines, adding machines and a variety of accounting forms, office furniture, etc., it is estimated that typewriters and supplies, indexing equipment and filing cabinets, ordinarily account for three-fourths of volume. Hence, any dip in sales of typewriters and filing cabinets, which appear to have caught up with deferred demand, is quickly felt.

It is generally agreed that profit margins are less satisfactory on typewriters than on accounting machines and other equipment ordinarily purchased by business organizations as a means of keeping records. The typewriter market has widened to include students, teachers and other vocations in which appeal must be made to the individual rather than to the purchasing agent. Hence, cost is more of a factor in this instance than for larger appliances purchased by banks, public utilities, insurance companies, etc., where economies in operations govern purchasing policies rather than price. In short, typewriters have come to be narrow margin items, whereas bookkeeping machines, tabulating equipment, etc., represent more profitable lines.

Dependence on typewriters apparently explains to some extent Remington Rand's relatively high labor factor. In the past fiscal year, for example, workers received about $77.6 million, approximately 53 per cent of sales. Since 1941 wage rates are reported to have increased 118 per cent. For the typewriter industry as a whole, records indicate the average rise in wage rates approximated 94 per cent in the period. This suggests that the company's employees' wages may be above average.

Indications that the sharp advance in labor costs had threatened to price the typewriter out of its market were seen in the company's recent announcement of its intention to close its Syracuse, N. Y., plant, one of the oldest in the industry, and transfer manufacture of portables to its plant in Scotland. Union representatives have offered to negotiate a new agreement offering prospect of reduced operating costs, but thus far the management has indicated no change in plans scheduled to become effective "sometime in February."

Remington Rand's management has been alert to its need for trimming costs and has sought relief in diversification among wider profit margin products. Its record points to the probability of aggressive action to correct unfavorable trends. Although earnings have shown a downward trend in the current fiscal year, influenced in part by relatively large charges ahead of the common, results seem likely to show up well in comparison with pre-war experience. On basis of the current split (two-for-one) shares, earnings had not averaged as high as $1 a share annually until the post-war boom based on accumulated demand for office supplies. Results should be more satisfactory in the future to permit continuance of the policy of distributing small stock dividends, but cash payments for a time at least may need to be reduced.

Foreign business, which is important, should continue satisfactory. The company's foreign investments amount to some $19.3 million, an increase of $5.6 million during the last fiscal year and brought about by resumption of operations in many export areas with shipment abroad approaching the average of prewar years.

The recent quotation for the stock of about 9 marks in a low point not only for the last year but for the past four years as well. Earlier in 1948 the shares sold as high as 15¼, above 20 in 1947 and at a peak of 25 in 1946.

Rexall Drug

Sharp advances in wage costs account for much—but not for all—of Rexall Drug's disappointing showing. Labor factor in retail distribution always had been relatively low until clerks organized

and obtained shorter hours as well as higher salaries. The need for increasing the number of employees to operate under the 40-hour work week arrangement imposed heavy burdens. This development, in turn, necessitated a fundamental change in merchandising, for the boost in wage rates made numerous small stores unprofitable. They either had to be closed or operated at a loss. Thus Rexall has been engaged for two years now in shrinking its chains, and this program has involved expenses not only of surrendering leases but of modernizing stores that continue in the organization.

Expansion of Dealer System

To combat this adverse trend, management has concentrated on expansion of its franchised dealer system under the Rexall name with 10,000 independent stores now in the system. This program has involved extraordinary advertising expenses and promotional activities in connection with training dealers and in assisting with local advertising displays. In time, it is hoped that benefits of current expenditures may contribute to improved operating results.

Inflationary trends in commodities constituting raw materials manufactured by the company's own plants also have involved difficulties, for management has endeavored to "hold the price line" on numerous items among the more than 2,000 distributed by its chains. Hence, as distribution costs have advanced, profit margins on many products have narrowed to the point of actual disappearance and competition has intensified pricing problems.

The management is young and aggressive and is acutely aware of the necessity for improving operating margins. Expansion costs appear to be on the decline and expenses are under better control. 1948 earnings promise to come to around 40 cents a share. Such a showing—allowing for the two-for-one stock split—compares relatively favorably with peacetime experience, except for the above-average results in 1946.

The business is highly competitive, and narrow margins are the rule rather than the exception. Hence, it would be only natural to expect restoration of the pre-war pattern of relatively moderate profits. Management apparently is not inclined toward dividend generosity. With further expansion in prospect, resumption of a regular dividend policy seems unlikely.

As to the recent past, on sales of $178.8 million in 1946, the operating margin was little more than 4% and the ratio of net earnings to sales about 2½%. Despite the record volume in 1947, operating margins shrank to about 1½% and the net profit margin to less than 1%. During the first six months of 1948 when volume declined by about 6%, a net loss was incurred to the extent of $12,000. But the September quarter revealed a significant comeback, and though volume for the first nine months of the year was lower by $4.2 million than in the comparable 1947 period, per share earnings for this span rose to 16 cents in reflection of the third quarter's net profit of 20c a share compared with a deficit of four cents during the first half.

Apparently the company's measures to improve operating results are bearing fruit but so far the stock has failed to reflect this improvement pricewise. They recently sold at their low for 1948 of 4⅞, contrasting with the year's high of 8 and a peak of 19⅜ back in 1946.

Answers to Inquiries

(*Continued from page* 350)

Sales and other income rose to $64,039,425 from $29,294,437 in the previous year and on a pro-forma basis aggregated $110,130,940 for the twelve months period. The company is currently processing approximately 50,000 barrels of crude oil daily in its three refineries. Average output of these refineries over the last fiscal year were approximately 37,000 barrels per day.

The merger into Ashland of Allied Oil Co. and its subsidiaries, with the economies and increased efficiency made possible by the consolidation of personnel, and operations, has proven even more beneficial than anticipated. Net earnings resulting from operations for the month of October, the first month of the new fiscal year, were equal to approximately 83 cents per share on the common stock, not including abnormal income of 9 cents per share representing profits on sales of low-cost inventories. October is usually one of the best months and earnings were far better than for any previous month. Prospects for the company and the oil industry gen-

erally continue favorable over coming months.

Pressed Steel Car Company, Inc.

"Please comment on operations, working capital and outlook for Pressed Steel Car Co., Inc."

T. J., Marion, Ohio

Pressed Steel Car Company, Inc. reported in August that car building operations were on a loss basis that would continue until orders taken in 1947 had been completed, and that the Domestic Appliance Division had been operating at a loss from its inception.

For the nine months to September 30, 1948, the Domestic Appliance Division showed a net operating loss of $826,223 after a tax credit. The company and its subsidiaries, exclusive of the Domestic Appliance Division, showed a net operating loss in the same period of $211,286 after a tax credit, which loss is materially less than was expected earlier in the year. The company and its subsidiaries, therefore, showed a total net operating loss of $1,037,509 after a tax credit of approximately $440,000 resulting from carry-back of a net operating loss. In addition, a book loss of $1,217,488 was shown resulting from the disposition of the Domestic Appliance Division's assets. Fortunately, the company was able to carry this loss forward, on an income basis, to apply as a tax credit against next year's earnings.

As of September 30, 1948, net working capitalization of $7,182,415 was shown, after taking account of bank loan totalling $2,993,630. Bank loans as of November have been reduced to $1,793,630. In this connection, company is now discussing with bank a refunding of the present loan, with provision for an additional amount to provide for larger operations beginning after the year-end. Car building operations continue to show an improvement, costs-wise and this improvement is expected to continue. The result of efforts in this direction will, of course, be reflected to a degree in fourth quarter operations, and to an even larger extent next year. Based on present order book, which now extends to May 1949, and taking into account the downward trend of costs established so far this year, it now appears that anticipated profits on the new orders secured will be satisfactory. Such anticipated profits will be tax free, due to the application of the carry-forward losses noted earlier, to the extent of approximately $1,500,000.

American Broadcasting Company

"Please advise on 1948 interim earnings of American Broadcasting Co."

E. G., Niagara Falls, N. Y.

The American Broadcasting Company, Inc., and subsidiaries report for the nine months ended September 30, 1948, estimated net income of $440,000 after Federal income taxes estimated at $270,000, equal to 26 cents a share on 1,689,017 shares of $1 par common stock. This compares with estimated net income of $1,050,000, equal to 62 cents a common share, on the same number of shares, reported for the like period a year ago.

Gross income from the sale of facilities, lines, talent, etc. for the nine months ended September 30, 1948 amounted to $39,080,912, compared with gross income of $38,138,847 for the comparable period a year ago.

The decrease in net income is largely due to the loss from television operations.

The Best Kind of Stocks for Capital Gains Today

(Continued from page 327)

ords during the first nine months of 1948, and the same has probably been true in the final quarter. If holiday season buying comes up to expectations, there is a chance that full year sales may come close to $1 billion for the first time in the company's history and net earnings per share should approach $10. In relation to an annual volume of this magnitude, inventories of $309 million carried on July 31 did not seem top-heavy and the company has set up reserves of $26 million as an offset to a possible drop in prices. A large portion of inventories, moreover, is divided among the 624 retail stores owned.

Efficient Management

Since the merchandising policies of Montgomery Ward stem from a highly efficient management and the affluent condition of farmers and workers promise to retain sales at a high level, confidence in the company's future operations appears well warranted. At 55, though, the shares are ten points below their highs of 1948 and 1947, and nearly 50 points under the 1946 peak. On basis of $3 per share dividends paid in 1948, the current yield of 5.2% is attractive and if the conservative dividend rate should be upped more in line with recent earnings, the prospects for capital gains might be decidedly enhanced.

Profit Opportunities in the Making for Early 1949 Markets

RELIABLE SECURITY ADVISORY SERVICE

Geared To 1949 Markets

For Protection — Income — Profit

There is no service more practical . . . more definite . . . more devoted to your interests than The Forecast. From its long experience . . . geared to today's markets . . . it will bring you weekly:

Security Services . . .

Projects the Market . . . Advises What Action to Take . . . Presents and interprets movements by industry of 46 leading groups comprising our broad 312 Common Stock Index.

Supply-Demand Barometer . . . plus Pertinent Charts depicting our 312 Common Stock Index, 100 High-Priced and 100 Low-Priced Stocks; also Dow-Jones Industrials and Rails from 1936 to date.

Dow Theory Interpretation . . . tells whether major and intermediate trends are up or down according to the Dow Theory.

Three Specialized Investment Programs . . . for income and profit . . . geared to your capital, wishes and objectives . . . with definite advices of what and when to buy and when to sell.

Essential Information for Subscribers . . . up-to-date data, earnings and dividend records on securities recommended; plus discussion of investment policies, etc.

Telegraphic Service . . . If you desire we will wire you in anticipation of important market turns.

Consultation By Wire and Mail . . . To keep your portfolio on a sound basis, you are welcome to consult us on 12 securities at a time.

Added Services . . .

Business Service . . . Weighs and projects outlook for general business and for individual industries . . . with charts of most sensitive indicators. (Alone worth $50 a year.)

Washington Letter . . . Doubly important in a Presidential Election Year. "Behind-the-scenes" reports and forecasts from business and investment standpoints. (Worth $25 a year.)

Special Offer!

6 MONTHS' SERVICE **$60**

12 MONTHS' SERVICE **$100**

Complete service will start at once but date from Feb. 1st. Subscriptions to The Forecast are deductible for tax purposes.

1949 will begin in a market setting favorable for profitable investment. Due to the post-election break, bargain prices are available for many sound stocks yielding 6% to 8% and more . . . with earnings' margins of two to three times dividends furnishing ample cushions against any higher taxes, wages, etc. Material appreciation for selected stocks will be stimulated by huge government spending and peak national income; an inflationary price level 35% above prewar; by more realistic market appraisals.

11 *stocks are now being recommended* . . . especially selected to forge ahead under the impetus of these forces . . . all dividend-payers with an average yield of $3.35 or 8.4% . . . amply secured by earnings of $10 a share. Averaging under $40 . . . they sell at a subnormal ratio of slightly over four times earnings. And you may rest assured that our new recommendations will also afford fine yields and outstanding appreciation potentials.

Our 1948 Record. In 1948 markets we have maintained our fine record of service in making available 103⅜ points profit with only 2¾ points loss on closed transactions. Our selection of securities has been consistently sound . . . our timing of the cross-currents and important movements has been highly accurate. In the early part of the year to the March low, we advised 75% cash reserves; called the major upturn in advising 75% investment on April 6th; and then recommended consistent profit-taking on strength in May and June with complete liquidity on July 20th . . . avoiding the August-September setback. And, as the "surprise" election decline got underway, we were only 26% committed . . . anticipating a major accumulative phase.

Capitalize on 1949 Markets Through Forecast Service

In 1949 . . . The Forecast will provide you with well-balanced, carefully worked out programs fitted to your capital and objectives . . . based on experience in building profit and income for our subscribers over 31 years. Our staff of top-notch technicians will project market movements for your benefit using our perfected Supply-Demand Barometer superior to that available in much higher-priced services. Our security specialists will select sound stocks in favorably situated industries . . . gearing your position to basic market prospects.

We will advise you definitely *what* and *when to buy* and *when to sell* . . . and feel that no one can serve you better . . . in your investment interests. Let us help you make 1949 the year of financial progress you want it to be by placing your enrollment now. Mail the Special Offer Coupon today!

FREE SERVICE TO FEBRUARY 1, 1949

1-1

THE INVESTMENT AND BUSINESS FORECAST

of The Magazine of Wall Street, 90 Broad Street, New York 4, N. Y.

I enclose ☐ $60 for 6 months' subscription; ☐ $100 for a year's subscription.

(Service to start at once but date from February 1, 1949)

SPECIAL MAIL SERVICE ON BULLETINS

Air Mail: ☐ $1.00 six months; ☐ $2.00 one year in U. S. and Canada.
Special Delivery: ☐ $3.50 six months; ☐ $7.00 one year.

☐ Telegraph me collect in anticipation of important market turning points . . . when to buy and when to sell.

Name ....

Address ....

City .... State ....

Your subscription shall not be assigned at any time without your consent.

List up to 12 of your securities for our initial Analytical and Advisory Report.

Individual Security Trends Now Crystallizing

(*Continued from page* 321)

Merely getting it out of the way might conceivably facilitate more rally.

Selectivity which has marked stock market activity during the past year is expected to be even more pronounced in 1949. This trend has been quite evident recently, particularly on the part of large investors, who have been carefully screening the stock list in making new commitments in recognition of the problems facing the various industries and companies with the return to more normal conditions.

We do not see a basis for a broad, sustained movement in stock prices either way, regardless of whether the year-end move is extended somewhat or peters out rather promptly. Hence, our conservative, middle-road investment policy, advocated for some time, remains unchanged. A more extended analysis of longer-term potentials will be made here in our Annual Forecast issue a fortnight hence.—Monday, December 27.

As I See It!

(*Continued from page* 319)

something softer even at the expense of scheduled Marshall Plan success.

But in siding with us, the European countries must realize that for them there has been no choice if they value their freedom and independence, that we are offering our aid not primarily as a reward for their siding with us, but to strengthen them so that they can once more stand on their feet — independent feet.

In the efforts towards our common goal, Europe can show cooperation by the will to straighten out her internal troubles, a prerequisite to real recovery. She can show it by united action, politically and economically, to meet a common threat, not by stubborn insistence on narrow national interests and advantages. What is needed is not only economic integration, vital as it is, but political collaboration all along the line to stem the Russian tide and assure a peaceful world. Dutch action in Indonesia is a flagrant example of *lack* of cooperation; clearly it tends to strenghten communism and plays right into the hands of Russian machinations in that part of the world. So does every evidence of western dissent in other spheres and areas.

The western nations must still learn how to pull together, and they better learn it soon. For if the West doesn't unite, it may fall.

BOOK REVIEWS

WILL DOLLARS SAVE THE WORLD?

By Henry Hazlitt

Here is an illuminating forecast of the future, and a startling one. It is sober in tone, thoroughly informed, clearly thought out, and brilliantly written. For the crucial importance of its subject matter, no less than the cogency of its analysis, it is a book no thinking person should miss.

Appleton-Century $1.50

EARLY DAYS OF OIL

By John A. Mather

No other industry has a comparable pictorial record of its beginnings. How many pictures Mather took is not known, but in the Titusville fire and flood of 1892 he lost over 16,000 negatives. Fortunately about 3,000 were saved and today are preserved in the Drake Museum. From this priceless collection, the author has selected 365 of the most representative pictures, supplementing them with a few others drawn from contemporary sources. The pictures are accompanied by captions and brief descriptive notes.

The scope of *Early Days of Oil* is broad and includes many pictures illustrating life on Oil Creek. Though of special interest to oil men, the book will appeal to everyone interested in one of the most colorful eras in American history, especially modern photographers, who will be fascinated by Mather's work.

Princeton $6.00

INCOME, EMPLOYMENT AND PUBLIC POLICY

Essays in Honor of Alvin H. Hansen
Norton Publishing

The essays contained in this book are the work of Professor Hansen's students at Harvard and other close associates. They are written and assembled here to honor his sixtieth birthday. Appropriately, they are concerned with the various important aspects of the business cycle and economic policy, the related fields in which Professor Hansen has done his great work. Together they constitute a significant contribution to modern political economy. The contributors to this volume are some of the most brilliant younger economists of the present day.

THE TAX DODGERS

tells a series of fascinating stories that show up once more the big money crooks whose sins were almost forgotten."

The Tax Dodgers by Elmer L. Irey, former Chief of the Enforcement Branch, U. S. Treasury, as told to William J. Slocum.

Greenberg Publisher $3.00

JEFFERSON THE VIRGINIAN

"Superb . . . Will endure as one of the imperishable monuments of biography."
—*Gerald W. Johnson*

Little Brown & Company $6.00

MANUAL OF PRACTICAL OFFICE SHORT CUTS

Compiled from tested ideas submitted by members of the National Office Management Association

Here is an invaluable collection of 625 proven practices and procedures for streamlining office routine. Covering the important, everyday functions of the modern organization, this manual supplies details on many refinements for increasing the effectiveness of departmental operations and of executive control—from practical hints in filing and typing, to improved practices of inventory control—from specimen work simplification forms, to scientific tests for the selection of personnel—etc. In bringing them together in this convenient form, the book—through ample, to-the-point descriptions—plus more than 100 drawings and photographs of records, forms, equipment, and miscellaneous gadgets—makes crystal clear how each idea can be applied with profit in your own company's various departments.

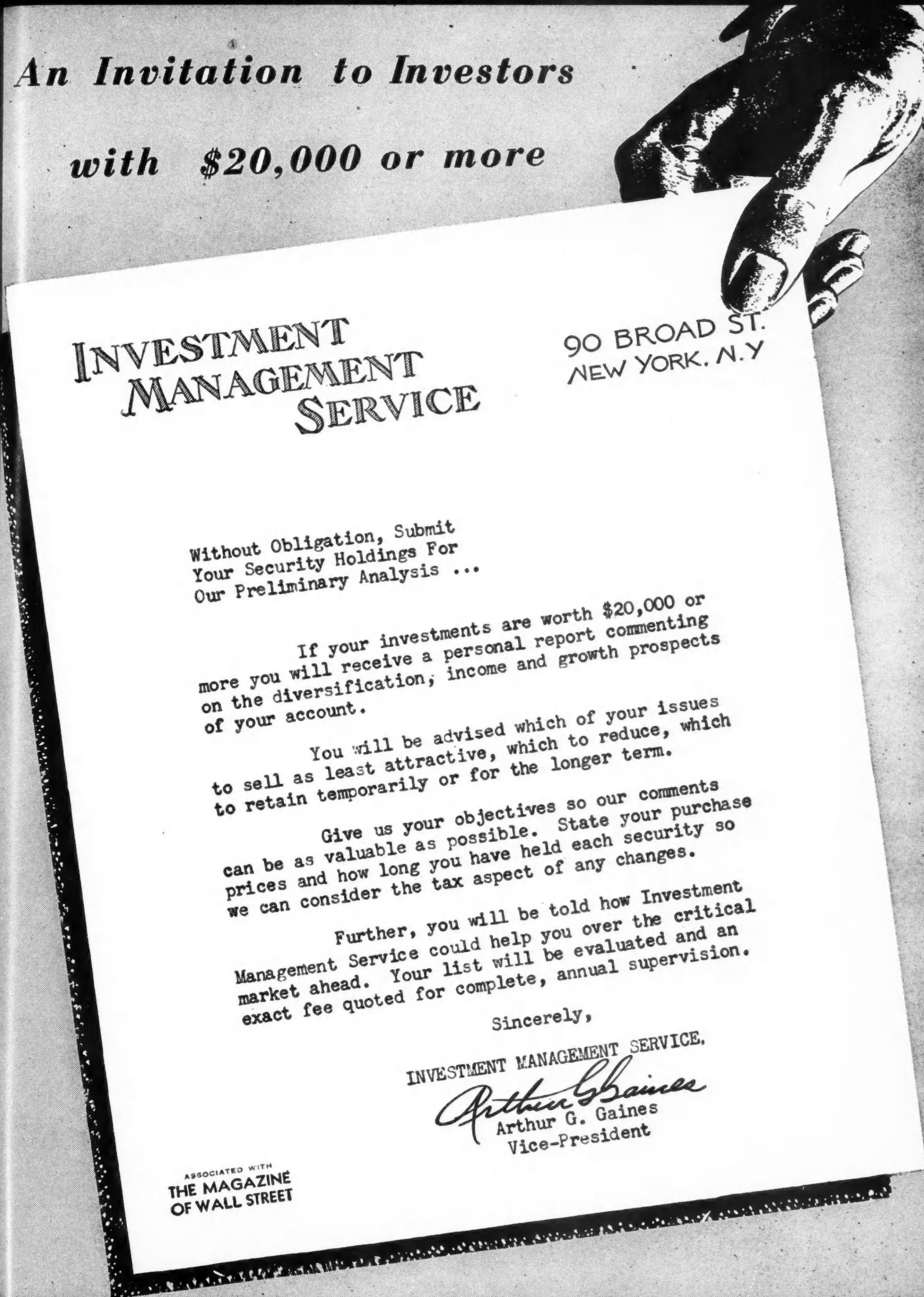
McGraw-Hill $3.50

CRYSTALLIZING PUBLIC OPINION

This book is 25 years new today. Still ahead of the times and growing in influence. Never out of print since 1923.

New doors to the understanding of human behavior were opened by this basic book. Edward L. Bernays originated and named the new profession of counsel of public relations and established the principles that changed the habits of millions.

Liveright Publishing Corp. $2.50


An Invitation to Investors
with $20,000 or more
INVESTMENT MANAGEMENT SERVICE
90 BROAD ST. NEW YORK, N.Y
Without Obligation, Submit Your Security Holdings For Our Preliminary Analysis ...
If your investments are worth $20,000 or more you will receive a personal report commenting on the diversification, income and growth prospects of your account.
You will be advised which of your issues to sell as least attractive, which to reduce, which to retain temporarily or for the longer term.
Give us your objectives so our comments can be as valuable as possible. State your purchase prices and how long you have held each security so we can consider the tax aspect of any changes.
Further, you will be told how Investment Management Service could help you over the critical market ahead. Your list will be evaluated and an exact fee quoted for complete, annual supervision.
Sincerely,
INVESTMENT MANAGEMENT SERVICE,
Arthur G. Gaines
Arthur G. Gaines
Vice-President
ASSOCIATED WITH
THE MAGAZINE OF WALL STREET